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PROCEEDINGS

of the

TWELFTH ANNUAL MEETING

CHICAGO, ILL.

December 29, 1947

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ORDERS FOR PUBLICATIONS AND INQUIRIES REGARDING MEMBERSHIP SHOULD BE ADDRESSED TO THE SECRETARY OF THE ASSOCIATION, SCHOOL OF BUSINESS, INDIANA UNIVERSITY, BLOOMINGTON, INDIANA.

This issue of the JOURNAL was prepared for public issue by the Secretary-Treasurer, J. Edward Hedges.

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Part I—Papers Read at Annual Meeting

A Life Company Training Program

Harold W. Gardiner, C.L.U.

Educational Director, Northwestern Mutual Life Insurance Company

May I say in the beginning that you have paid The Northwestern a very nice compliment in inviting me here to speak today on the subject of The Northwestern Training Program. We, in The Northwestern, are very conscious of the common interest that we have with you teachers of insurance, and we are glad, indeed, to share our experiences with you in the hope that they may be of some value to you. Certainly we are very much interested in the work that you are doing.

Looking back to my own entry into the life insurance business, I am still keenly cognizant of the helpful counsel that was given to me by the Dean of my law school, and by other members of the faculty when I was considering life insurance as my life work. I recall, particularly, the counsel given to me by Dr. Cheadle who was a member of the University of Oklahoma Law School faculty at that time. As he counseled with me on entering life insurance on a career basis, he advised me somewhat as follows:—"The opportunities in the life insurance business are certainly great. While the obstacles are likewise substantial, you ought to be very glad that this is so. If it were easy to succeed in the life insurance business, then everybody in the world would be trying to get into that business, and because of the competition, the business would no longer be as attractive and well-paid as it is. If you belong in the life insurance business, there is an advantage to you in the fact that it is not easy to succeed in that line of work." I have never forgotten Dr. Cheadle's sound advice, and I think it is as good today as it was at that time.

You don't need me to tell you that college education is important in the life insurance business. I wish that I had some statistics that I could give you today to show you just *how important* this college background is to the life underwriter, but I do not have such information available this morning. College background is given substantial weight in all of our testing procedures, and, from a judgment point of view, may I say that our eyes instinctively light up when our prospective agent is a college man. Carrying that illustration a step further, our eyes really glow when we find that the prospective agent has had specific insurance training in his college education.

You gentlemen, of course, have the credit for the training that our prospective agents receive in this direction. You also have the responsibility for its effectiveness and it seems to me that through the exchange of ideas scheduled for this morning, it may well be possible for you to understand even better how to bend the training that you give in college and that we in the business may appreciate even more how to utilize the

background that your graduates bring to us when they come into life insurance work.

I take it that you invited me to come here this morning, not for the purpose of making a speech, but rather to tell you frankly and informally what The Northwestern Training Program is and how it works. That is exactly what I plan to do. It is only through honest and practical discussion of our joint fields of endeavor that we can arrive at the best solution of our common problem—namely, through the medium of education and training to convert a likely student into a capable and effective career life underwriter.

In opening this discussion, it seems to me that you have a right to know something about the current status of a business for which you are asked to educate some of the most promising candidates. You are entitled to know, for example, that the average full-time agent of the Northwestern Mutual earns a very, very good living in the life insurance business. You are entitled to know that one hundred and thirty-two members in our Company alone qualified for membership in the Million Dollar Round Table this year. Altogether, seven hundred and twenty-six men in all companies attained that high level of success.

You are entitled to know that despite the criticism of the turnover in the life insurance business, we don't believe it to be out of line with the experience in other lines of work. It just so happens that because of the nature of his activities, a lot more people know about it when a new man enters the life insurance business and later leaves it. We are keenly interested in increasing the proportion of our new men who go through to ultimate success and it is generally conceded that we are making substantial progress in that direction. Meanwhile may I suggest to you that you review among your own acquaintances the young doctors, the young lawyers and the young accountants who ultimately arrived in a somewhat different line of work than that in which they originally launched themselves. Life underwriting will show up well in most such comparisons.

There is another phase of the life insurance business which I think we might profitably discuss for a few moments at this time. This is the question of whether or not the right kind of men can be attracted to the life insurance business without some sort of guaranteed salary during their early months in our work. It seems to me we may have permitted ourselves to overemphasize this point. Actually, there are some very satisfactory salary plans available in our Company and in others. So far as we have been able to observe, they haven't made any spectacular difference in our recruiting work. The young doctor and the young lawyer have long since adjusted themselves to a period of interneship at low pay, in return for which they found great compensation opportunities at the other end of their experience. This same willingness to pay a price for future, substantial success is a characteristic of many of the fellows who have shown the greatest flair for life underwriting. It has been interesting to observe in our work how frequently the best type of new man has made a particular point of wanting to keep entirely free from any financing. He considered it important to make the grade entirely on his own. Referring to my only twenty-three years' experience in the business, I am not able to recall a single instance where an ob-

viously qualified man was obliged to turn away from the life insurance business for the sole reason of lack of an offer of adequate financing. I think I can properly say to you that if one of your students belongs in the life insurance business and really wants a life insurance career, he won't have very much difficulty in finding a satisfactory solution to the financial considerations that are involved. If he doesn't belong in the business, no possible financial plan will be satisfactory to either the agent or the Company for long.

So much for the general background of the business for which you are currently preparing your students. In the training of a life insurance man, we feel that it is important to recognize the several operations that he is required to go through in connection with his daily work. We know that an understanding of these steps colors our training of the man and I have an idea that they also influence the education that you try to give him in your college classes.

1. A good life underwriter must be a good prospector. He must discover and qualify the names of people upon whom he will call.
2. He must prepare the way for his calls in many, if not in most instances, by the use of either the telephone or direct mail.
3. He must have an interesting approach so that the prospect will find it more natural to accord him an interview than not to do so.
4. He must have a well-organized fact-finding interview presentation that will enable him to secure the facts from his prospect upon which he can base an intelligent and valuable presentation of a life insurance program.
5. He must employ the information that he gains in his fact-finding interview to prepare an insurance plan for the prospect supported by the necessary illustrations of the benefits and the cost.
6. He must conduct a closing interview at which time he presents this material to the prospect and gives that prospect one or more opportunities to buy either the original plan or some alternate.

Finally, when the sale is completed, he must prepare requests for settlement agreements that will carry out the expressed wishes of the insured and make sure that the policies are endorsed to carry out the plan. Thereafter, he must follow through with constantly renewing service to his policyholder. In an ordinary day's work, the life insurance salesman will deal with perhaps eight or ten different prospects, each of whom is at one stage or another of this process that we have just outlined.

The objective of the Northwestern Training Program is to make the salesman skillful in each of these steps. Frankly, we think we have a good program for accomplishing this purpose and I feel that we can say so freely and without any sense of false modesty because our program is made up of the ideas of many, many people, both in and out of our Company. Certainly, it is not the product of any one or two individuals. Several of you in this room today have contributed ideas to the plan we are following. On the other hand, we have no slightest idea that we have attained an ideal program by any means. We have a plan, one that we are pleased with and happy to tell you about, but a plan which is nonetheless subjected to continuing review and improvement.

There are some fundamental concepts in our program that you will need to understand as a starting point for this discussion:

1. We believe that training and education *is the General Agent's job.* Education and training *is not* a Home Office assignment and it cannot be satisfactorily accomplished by a Home Office educational division. An average General Agent can do this job better than a top-flight, Home Office setup. This is primarily true because of the close relationship that needs to exist between the life underwriter and his sales manager. If the General Agent isn't the agent's original fountainhead of information and skill, then the relationship suffers. It has long been recognized that the personal tutor provides the best type of training that has ever been developed and the General Agent-to-salesman type training combination is a most practical example of personal tutoring. We can prepare the material and outline the procedures, but the real instruction takes place on a man-to-man basis between the salesman and his General Agent. This is the way it should be because the General Agent is on the firing line and familiar with the agent's immediate situation.
2. The Home Office Educational Division should furnish the General Agent with a workable training plan to follow and the training tools with which to implement it. The Training Program should be designed with a lot of *"white space"*, however, so that the General Agent can fill it in with his own ideas. It should be sufficiently complete to fully guide the work of a new and inexperienced General Agent, but flexible enough to incorporate the best ideas of our experienced trainer. Our material is all beamed toward helping the General Agent do the training job rather than attempting to do it for him.

Another fundamental concept is that training should look in two directions in its objectives:—

1. Know-how—the acquisition of skill in selling by the new man.
2. Know-what—the acquisition of essential knowledge; the facts of the business that the new man needs to have.

(Here distributes charts showing our Training Program)

As you will observe from the chart, that has just been distributed, a copy of which appears here on this easel, The Northwestern Mutual Training Program includes five distinctive steps leading finally into preparation for C.L.U. The first of these steps is initial training and this covers a period approximately two weeks. During this beginning period in which we introduce our new agent to his business, the training in selling skills consists of meeting and mastering the sales plan selected for this agent to use. He concentrates on this sales presentation for a part of each morning and each afternoon with a further study period in the evening. At the end of initial training, we expect our salesman to know *the philosophy of his plan* and the *language of his presentation* so thoroughly that he will have *genuine* confidence in approaching his prospects.

During this same period the new agent's source of essential information is our *Short Course to a Northwestern Career*—the nine-section

textbook which you see in this red binder. This course was prepared specifically for Northwestern agents. It is revised annually and it has been in use for more than twenty years. Study hours each morning, afternoon and evening during these first two weeks take our agent through the material that is contained in the successive sections of the Short Course. Naturally, there is a wealth of sales material blended in with the information contained in the back. The titles of the nine sections are as follows:

1. Career Life Underwriting (confirming his choice of a career)
2. History of the Company
3. Needs, Uses, and Functions of Life Insurance
4. Prospecting
5. Science of Life Insurance
6. Policy Fundamentals
7. Reference Equipment—Rate Book, Dividend Manual, etc.
8. Presentation—The technique of selling.
9. Personal Planning -- The agent's management of his own business.

We have found that it added materially to the new agent's retention of ideas covered in the Short Course for him to write out a form of examination that we have prepared. We encourage all new agents to do this and each one who completes the Short Course examinations is presented with a neat certificate signed by his General Agent and The Educational Director.

The second phase of our agent's training starts with his initial work in the field. We are tremendously interested in having this new man form sound work habits right from the very first day. We believe that if he forms good work habits there won't be very much room left for him to form bad work habits. It doesn't work out as perfectly as that, of course. But that is our objective, nevertheless.

The Thirteen Weeks' Reporting Program is a Northwestern development and is, I believe, peculiar to our Company in the life insurance field. Over the period of the first thirteen weeks that he is making calls, our new agent, each week, makes a report of his field activities on a report blank which shows day by day the number of calls he has made, the number of prospects he has seen, the number of fact-finding and closing interviews that he has secured, the number and amount of applications that he has written during the week, the number of new prospects he has secured, the number of hours that he has spent in the office and the number of hours that he has spent in the field. The original of this report comes to the Educational Division at the Home Office; the carbon copy goes to his General Agent. We review each report at the Home Office and write the agent a personal letter—(and I mean personal)—commenting on some of the more cardinal points in the report. We include in our letter some stimulating sales suggestions, often enclosing a helpful booklet, such as some of you may have seen prepared by the Life Insurance Agency Management Association. The nature of these letters and enclosures that are sent along are worked out in a carefully prepared pattern.

The most significant benefit of this Reporting Program, however, comes from the things that the agent discovers about himself. With

surprising frequency in the remarks portion of the report, we will find that the agent has discovered his own weakness and outlined the course that he will take to correct it. We realize that the fellow that our salesman sees in his shaving mirror each morning is the best sales manager that he will ever have. Being his own best sales manager, when he discovers his shortcomings and begins to correct them, his problems are two-thirds solved. Concurrently with our Thirteen Weeks' Reporting Program, our agents also work through the Insurance Research and Review Course, "An Introduction to Life Underwriting". By a very happy coincidence, this course consists of thirteen study units. In many ways this material duplicates that provided in our own Short Course. We have found, however, that by studying the subject a second time and from a slightly different point of view, our agent not only picks up some additional points but better understands the material that he covered in our own Short Course.

At the end of the Thirteen Weeks' Reporting Program, we analyze our agent's reports and send him an analysis sheet with our final letter which, based upon his personal production, puts a dollar value on each call he makes, each interview he conducts and each hour that he spends in the field. You can well appreciate the stimulating effect that such an analysis has when, as is frequently the case, he discovers that his field hours are worth from five to ten dollars per hour to him based upon *his* personal performance during *his* first thirteen weeks in the field. You might be interested to know that we prepared a study of the 97 men who completed this Reporting Program from January 1, 1947 to July 31, 1947. This study included every man who completed the Reporting Program whether he did very well or did very badly. The average value of each field hour for this group was $4.81 which I think you will agree is mighty good pay for apprentices during their first three months in a new business.

Participation in the Thirteen Weeks' Reporting Program is entirely voluntary—yet, over 95% of our new agents are enrolled in the course by their General Agents. We have been interested to note that this included a good many fellows who had previous experience with other companies before joining The Northwestern. All of those who complete the Reporting Program are presented with a certificate acknowledging successful completion of this second phase of their training.

The Intermediate Course follows the Reporting Program. It is a Case Book study of successful life insurance sales made currently by Northwestern Mutual salesmen. The book is divided into eight sections, as follows:

1. Minimum program—prospect with income of $3,000 to $5,000 per year.
2. Minimum program—prospect with income of $5,000 to $7,500 per year.
3. Retirement plan combined with minimum program for doctors and other professional men.
4. Minimum program—prospect with income of $7,500 to $10,000 per year.
5. Insurance program for business and professional women.

6. Minimum program—prospect with income of $10,000 to $15,000 per year.
7. Simple business insurance situations.
8. Estate planning—estate tax problems—prospect with income over $15,000.

In each section, we have assembled case reports prepared by men in The Northwestern sales force who are not only doing a good job of selling, but who are doing it in a well-organized way. We have three or four such reports in each section. In each report the salesman's General Agent uses the first paragraph to describe the background of this reporting salesman so the student can relate his own situations to that of the agent whose work he is studying. In succeeding paragraphs, the reporting agent tells where he got his prospect, what pre-approach steps he took, the approach that he used to interest the prospect; he gives a digest of his fact-finding interview, provides the facts that he learned about the prospect, tells how he planned for the closing interview. The report includes a copy of any charts or illustrations that the salesman prepares, gives a digest of the closing interview he conducted, records the kind and amount of life insurance that he sold and reviews the post-sale service that he extended in this case. Finally, our co-operating reporting agent offers any comments that seem particularly pertinent to him in this sale.

The student salesman studies the three or four case reports in a section during his available study time in the course of one week. The following week he has a practice case to work out on his own account. We furnish him with a set of facts and he works out his presentation. In this fashion, he learns by doing. As one of our good trainers has said, "The Intermediate Course of The Northwestern serves to bring 25 to 30 of The Northwestern's best organized and effective salesmen into the new salesman's office to explain to him step by step how they operate so successfully." These reports record not spectacular cases but typical cases. We want to show our new agent how the job should be done, not how it might be done.

In working out their practice cases, we encourage our students to visualize some particular prospect in their file who most nearly resembles the situation described in the practice case. With satisfying frequency, the agent who sends in his practice case tells us that he used this same idea to call on the prospect he had in mind while working the practice case and had been successful in selling the full amount of insurance recommended. It is a very good example of learning by doing. One of the very best ways of studying the Intermediate Course is for a group of new agents to go through the course together under the direction and guidance of their General Agent. We find that they get the maximum benefit from the course in this fashion; all those who complete the Intermediate Course are presented an appropriate Certificate.

Several life insurance companies have successful home office training schools, but we believe The Northwestern Career School to be substantially different in its approach and its technique. The Northwestern Career School, which extends over a period of two weeks, is not intended to teach a new man how to sell life insurance—rather, it is aimed at

teaching the successful, new life underwriter how to become more succuessful, more rapidly. To be eligible for this school, a new agent must have completed at least six months as a full-time life underwriter with The Northwestern; he must have put in force at least $50,000 of quality life insurance during a six months' period immediately prior to his attending the school. He must have successfully completed the Short Course, the Reporting Program and the Intermediate Course. Most important of all, he must have the unqualified endorsement and approval of his General Agent as possessing the qualities that we seek in our career agents. It facilitates the General Agent's appraisal of this man to require that the General Agent pay the travel and other expenses of the agent while he is attending the school. The material just now handed to you includes a picture of the school, to give you an idea of the physical setup, and a copy of the schedule. You will note that the school includes a fast moving review of the fundamentals that the agent should know at this time with initial emphasis upon prospecting. After a thorough discussion of principles of salesmanship and some training in the salesman's use of the savings idea, the first week winds up on the subject of programming in which we undertake to be very thorough. You will be interested to note the instruction in psychology and the training in the use of speech during this first week conducted by a professor from the University of Wisconsin.

The second week opens with a careful study of some of the fundamentals of Advanced Underwriting, particularly in the field of business insurance. This is followed by a day devoted to better understanding of risk selection, then a day of sales points dealing with the close, and the school is concluded with a series of periods devoted to better organization of the agent's personal life insurance job. We like to remind our agent that although he is associated with the sixteenth largest business enterprise in the United States, and although his General Agency office is one of the important business centers in the community, the agent himself is nevertheless engaged in the operation of a one-man business. Unless he operates this sole proprietorship on efficient business principles, he cannot hope to achieve the success of which he is capable. We emphasize this point in each and every one of our training courses.

We have found that there is a distinct advantage in having the school at our Home Office. There is a substantial amount of prestige which the agent feels there as he would in no other place. We can call on the top men in their lines in our Home Office as instructors and get a quality of instruction that we could not have in any other way. By carefully selecting our students, we find that each of them gains something from the other, and they take away the thought that the association at the school is one of its most important aspects. In keeping with our objective of raising this salesman to a higher plateau of performance, we undertake to "set each man on fire" before the end of the school. Our success in this respect is indicated by the fact that one or two of our fellows from each school can be counted on to write from $50,000 to $100,000 of business the first week that they are home from the school, usually on some specific idea gained in the school.

We conducted four Career Schools during the year 1947, and expect

to have at least three during 1948. An appropriate certificate is presented to each graduate of the Career School.

The fifth step in our training program is *The Northwestern's Advanced Course* aimed at the underwriter approximately at the beginning of his second year in the business. The course consists of the four volumes displayed on the easel. The purpose of this course is to give the agent comprehensive instruction in all manner of advanced underwriting subjects. By advanced underwriting, we mean business insurance for the sole proprietor, the partnership, the close corporation, the keyman and situations of that sort. Sections are devoted to income and estate taxes, the problems presented by gifts, etc. This course will require most of the agent's study time over a period of approximately two years.

The first five sections are designed to build ground work for a better understanding of the subjects presented later in the course. Section No. 1, for example, contains a complete review of the things an underwriter ought to know before starting into advanced training, and there is a helpful list of references at the end of each division in this first section, to which the agent can turn for further knowledge. The second section deals with business accounting and the accountant—an obviously interesting and appropriate subject. The third section has to do with business law and the attorney; the fourth section deals with income taxes, and the fifth section with estate.

With this background of preparatory material, the next twelve sections deal with four business insurance subjects in the following pattern:—Sections 6, 7 and 8 deal with the Sole Proprietorship. Section 6 presents the ideas that have been developed by the Insurance Research and Review Service having to do with the sole proprietor. Section 7 gives specific Northwestern experience in those fields, offers the advice and counsel of our Secretarial Department and incorporates the forms that should be used in this type of case. Then, Section 8 gives case reports of actual sole proprietorship sales made by Northwestern Mutual agents in this type of situation. These case reports follow the same pattern as the case reports in the Intermediate Course. Sections 9, 10 and 11 give the same three-ply treatment to the subject of the partnership. Sections 12, 13 and 14 deal with the close corporation in similar fashion. Sections 15, 16 and 17 have to do with keyman insurance, again treated from these three points of view. The next four sections have to do with the problems presented by the estate of the man of substantial means involving wills and laws of descent, trusts, trustees and trust companies, gifts and life insurance gifts, and estate problems generally. The 22nd section deals with the complicated but important subject of pension trusts, and the last two sections of the course come back to our salesman and the effective organization of his own business. We never want him to lose sight of this important subject.

At the end of each section is a rather substantial "learn-by-doing" study project. We have sought in each instance to give the agent an assignment that would leave him with a clear and practical understanding of the material he had just studied by the time he had completed his study project. There are twenty-four sections in the course; our

feeling is that the agent should do one per month, digesting the material in each section fully before moving on to the next section. A certificate is presented to each agent completing this course.

About the time the agent enrolls in the Advanced Course, he is likely to show interest in the Chartered Life Underwriter designation. I am sure that everyone in this room is familiar with C.L.U. and its important work. We are much interested in C.L.U. preparation and in the study groups over the country in which I am sure that many of you have an active part. You might be interested to know that in our Agency Department Library we maintain a large supply of all the books necessary to prepare for these examinations, and these are available to our agents without charge on a long loan basis. We make it one of our particular objectives to assist and cooperate with any agent who wants his C.L.U. To date, The Northwestern Mutual has over two hundred C.L.U.'s. Just before I left the office, our librarian told me that our C.L.U. book loans for this Fall are already well in advance of all the C.L.U. books loaned from the library during the entire previous study year. No doubt, many of you are seeing similar signs of increased interest in C.L.U. in your own work.

To tie this entire training program together for our General Agents, we have built *The Northwestern Training Guide*. In the Training Guide, there is a section devoted to each of the training steps that we have discussed here this morning. In each section, after appropriate paragraphs of explanation and preparation, there is a separate sheet for each step to be covered in that particular training period. A training guide is essential for the use of the General Agent who is to administer training on this scale. Although this training guide is prepared at the Home Office, we feel that it reaches its maximum usefulness when the General Agent makes a personal volume out of it by entering a lot of his own training notes. To encourage this, every "training step" page of the book provides a considerable amount of blank space specifically designated for the use of the trainer in entering his personal notes. As a result, his training guide, when properly used, is likely to resemble the notes that each of you has prepared for conduct of your own insurance classes. Incorporated in the Training Guide is a check-list for the training status of each agent in the training process. Also provided with the Training Guide is a portfolio of the seven interview forms considered most suitable for starting the new man. Each of these portfolios includes the full text of the sales talk and all the collateral material needed to make the presentation.

Obviously, it is important to give the General Agent training in how to use this rather comprehensive training program. Shortly after the appointment of a new General Agent, he is invited to the Home Office to spend a week getting orientated in his new work. During this period he is taken carefully through the training program step by step, and coached in the techniques that have been proven suitable for each of the phases of our training. Training the trainer is a highly essential part of the plan.

In closing this discussion, there is one point that I should like to emphasize above all others. The true test of training effectiveness is

the production of a satisfactory quantity of high quality business by our new salesmen. We try to keep always in the foreground the fact that we are training salesmen and not just seeking graduates from our training courses. I can assure you that we are delighted with the sales results that we see from the fine young men participating in this Northwestern Training Program. Business is good with our new agents. We certainly don't feel that we have discovered all of the answers. We think of our training program as *a* training program, rather than *the* training program. It seems to be serving its purpose well. All the things I have told you about are in successful use. However, we are very mindful of the fact that it is only through constant improvement that we can keep our material at the high level we have set for ourselves. We are trying to live up to the motto that we have suggested for all Northwestern Mutual agents—"He who sops getting better ceases being good." Thank you so much for your cooperative attention.

A Property-Casualty Educational Program

by

H. Paul Abbott, Director of Education

North America Companies

At the last annual meeting of this association Professors David McCahan and Harry J. Loman presented a very interesting and stimulating paper entitled "College Education for Insurance: A Minimum Program". In it they defined the careers in insurance for which their educational blueprint was designed as follows:

"The careers with which we are concerned fall in what might be called the business operations area, including such activities as the determination of business and administrative policies, organization and management, personnel and public relations, financial operations, the marketing processes and including, in the case of insurance field personnel, the advising and counselling of the insurance buyers".

They went on to refer to the past weaknesses of acquring "the knowledge necessary for exercising all these functions through learning on the job and by experience only". They mentioned that "this process has proved too slow and imperfect to work satisfactorily in the complex of modern business, especially when those who make business decisions, give directions and furnish advice must possess an undertanding of the consequences, social implications and political repercussions of their acts".

I have been asked today to describe for you the program of education and training of the North America Companies, with particular emphasis upon our views of the relative roles of companies and universities in preparing men and women for insurance careers. In doing this, so far as possible I shall relate the content of this paper to that which Professors McCahan and Loman presented last year.

In a discussion of this sort, inevitably there will arise the old question of the respective positions of education and training. Which is the proper sphere of industry? Which is the proper one of colleges and universities? As this story unfolds, I believe it will become clear that we at the North America encroach upon the field of education only because present circumstances and our recruiting philosophy force us to do so. If there be no cure for these compelling circumstances, we shall continue to do so. Suffice it to say that we have no intention of attempting to embark upon a program of education in direct competition with colleges and universities, for the plain and simple truth of the matter is that such a program costs money which we in the industry can put to better use elsewhere. We can, therefore, reach agreement on the premise that *ideally* the task of education is one to be entrusted to colleges and universities, while industry should be content with the task of adapting general knowledge and skills to specialized tasks and purposes. It is toward that goal that we are working.

At this point some may ask just what we mean by education in insurance and how is it differentiated from training. Let me assure you that if you attempt a definition of either by reference to Webster's Standard, the Encyclopedia Brittanica or any of the usual aids you will reap naught but confusion. I know, because I tried it! It was, therefore, with a feeling of considerable relief that I finally ran across the following definition published recently by Norman Davis of the National Board of Fire Underwriters. It reads:

> "Education is the presentation of information, the cumulative acquisition of which will provide a fund upon which the possessor can draw to form such judgments and decisions as he may be called upon to render. An employee educational program, therefore, has the major objective of transferring to employees a detailed body of related information which will have the net effect of developing their horizons and increasing their potential worth to the indutsry.
>
> Training is the development of skills which may be applied to the operative functions of the business."

Speaking broadly, we might say that *formal* education is the expediting of worthwhile experience, and it is worthwhile experience which educates the man. By insurance education we attempt in a comparatively short span of time to give to a student the accumulative wisdom of insurance experience. Roughly speaking then, insurance education is concerned more with the "whys" of insurance and training with the "hows".

As I see it, insurance, born of economic necessity, grew without tutelage for many years through comparatively isolated experiences. What was knowledge of good practice and principles in the fields of Life or Fire or Marine or Casualty insurance was not transmitted from one to the other. It remained for the educational institutions of this country to attempt looking past and through the "hows" toward the "whys". Their contribution has been the development and demonstration of insurance principles and broad problems. Unbiased educators have helped to improve insurance operations by publicizing the good points of each field, while at the same time integrating all fields into the economic whole. Busy insurance men with their limited time seldom have opportunity to step back, as it were, from their position of concentrated attention upon the individual trees in order to make intelligent observation of the entire forest. Educators have taken the time to step back to view the whole and have offered management the advantages of the views of such "steppers back". Today management is perhaps inclined to believe that there are many more problems in the business than ever before. This may well be true, for my part, however, I am inclined to believe that educators have helped the industry to recognize problems which have always been present but were heretofore viewed through a glass darkly.

By far the most urgent of these problems is the procurement and training of brainpower adequate to cope with a business which is extremely complex and vital to the public welfare. It is fully recognized that intelligent management is the industry's most vital need, for it is management which must meet and treat with all the other problems

in the insurance industry. Furthermore, the problem is more inclusive than merely discovering those present employees who have the necessary brainpower. A continuing flow into the Company (and the industry for that matter) is necessary if the company and industry are to endure, for the top management will, in the long run, be no stronger than the raw brainpower poured into the Company from the bottom. With this in view, we must find young men of ability. We must encourage them to enter the business by making it worthwhile and attractive for them. They must be shown a career-management plan after employment in which they can believe and which will be as sound as educators and company men, pooling their abilities and skills, can achieve.

Our own story properly begins with the most vital responsibility of the Education Department, the recruiting for training of all men who have the potential ability to rise above clerical tasks. It is from these that the future leaders of the company are expected to develop. We feel that too much emphasis cannot be placed upon the importance of proper selection, for the best training course cannot be any better than the material with which it has to work. At the North America we are, therefore, trying to find the best material *first* and then concentrating our efforts on the program of training.

It is because we at the North America place primary emphasis upon manpower selection that we find ourselves forced to encroach upon the field of education in our training program. We have three principal sources of manpower: (1) College graduates, (2) High School graduates and (3) personnel currently employed by the company. These three are *not* listed in order of preference or importance. We are after the *man* first. As a nationwide organization we desire broad geographical representation. We must tap the best representative brains and leadership-potential of each locale. For this reason we are currently and constantly in communication with over a hundred universities in the country. Representatives of our education department travel to most of these schools at least once each year. The managers of our field offices contribute the time and contacts of their employees to this vital project. Last year well over 1000 college students were interviewed on campuses and nearly 300 were brought on to Philadelphia for further screening.

The visit to the college has a twofold purpose. First, we are vitally concerned in breaking down the indifference, if not actual antagonism, of the average college undergraduate towards insurance (in some measure this applies to the placement directors as well). In far too many universities there is on outright ignorance of what constitutes Property and Casualty Insurance. That there are outstanding career opportunities in insurance for the college graduate is *not* well known. I believe the Life Companies are making a more positive effort to combat this than are we. Some of the antagonism arises from the mass hiring tactics of shortsighted companies in years gone by, a practice which the better companies now condemn and are making great strides to correct. I need not tell you that there was a time when some life insurance companies would hire a hundred men for selling jobs with the full realization that only twenty could make good but that in the meantime the other eighty would sell policies to their relatives and friends. One of

the better companies in New York today refuses to permit its representatives to sell policies to their relatives—a step in the right direction. Others now offer a guaranteed substistence for three years until training and experience have adequately prepared the individual to prosper on commission sales. This has, of course, greatly increased salary expenditure, which in turn has demanded more careful selection of manpower. By intelligent dissemination of insurance information the college graduate is coming to realize that salesmanship in insurance is far more than door-to-door peddling and the company end of the business calls for more than sitting, quill in hand, on a high stool inscribing figures in large ledgers.

After stimulating an interest in the future career opportunities in Property and Casualty Insurance, and this is usually done in a group meeting with the aid of our recruiting film, we then spend about half an hour each with interested candidates. Those men who appear to measure up to our standards are encouraged to pursue a thorough investigation of us and the industry. They do this by talking to people in the business, representatives of our company and competitors. We refer them to financiers and other leaders of industry. A list of suggested reading includes Best's Insurance Guide with Key Ratings, our own brochure, copies of which have been distributed to you; "Careers in Fire and Casualty Insurance" published by the Institute for Research, Chicago, Ill.; "A Career for You" published by the Association of Casualty and Surety Executives; "Risks We Face" by Laurence Ackerman; a general insurance text; "Fortune Magazine" February 1937 issue; "Biography of a Business" by Marquis James; and our own Annual Report to Stockholders. We believe that if a candidate is serious in his intent to embark upon an insurance career, he will carry out this suggested investigation thoroughly and enthusiastically. We tell the candidate that *he* must sell himself upon the advantages of a career with us, that unless he shows positive signs of interest we will not pursue him further. He may receive a letter of encouragement from us. If he does, it is just that and nothing more. It signifies that if he can "catch fire" for an insurance career we think he has a reasonable chance of completing our screening. The ball is his to run with or not as he chooses.

If the young man elects to try to qualify, his first step is to gain the endorsement of the manager of our service office nearest his home. Successful in this, he is invited to travel to Philadelphia at our expense. There he spends two days with us. The morning of the first day he goes through a series of individual interviews with department heads. In the afternoon he is given a battery of aptitude tests. The next morning he goes before an admissions board made up of senior officers of our companies. If he measures up, he is then given a physical examination by our company doctor and an orientation talk by our Personnel Department. Approximately one in ten from those interviewed on the college campuses successfully completes the screening, this despite the helpful selection efforts of college placement directors. Those who fail do so principally because they have not investigated their future opportunities thoroughly enough. They may have a high degree of learning speed, and give evidence of leadership, but still have

not graduated from the status of "job-hunters" to "career seekers". We do not believe their interest and conviction is sincere enough to pull them through the rigors of the training school and the long apprenticeship which the professional aspects of our business demand. Though they may have taken management courses in college, they are told that they can not mature to management responsibilities with us in less than ten to fifteen years. In these times of easy jobs and quick money many men wilt under this treatment. The gallons of practical cold water we pour extinguish an interest that has been but lightly kindled. Although we plant the spark of interest in the first place, the candidates must fan it into a live flame of conviction sufficient to withstand the cold water of honest description of the rigors ahead. That such treatment is sound is evidenced by the fact that out of over two hundred men taken into the program thus far but 14 have fallen by the wayside either during or after attendance in the training school! Of course, it is to be expected that a larger number will succumb later when the various individuals' rates of progress become more conspicuous. Then, those developing comparatively slowly will be inclined to look more favorably upon employment with other companies or agencies.

Aptitude tests were mentioned as one of our screening techniques. On the chance that there may be any possible misunderstanding, let me emphasize the fact that we use such tests only as a check, never as a control. In fact we are still in process of validating our own battery of tests. As part of this validation these tests have been given to most of our department heads and officers and to many of our personnel in the field. Significant conclusions have not been reached to date. The tests of learning speed are the only ones that have demonstrated any positive value up to the present time. As an aside, let me say that it is interesting to note that in our company almost without exception those men with the highest intelligence quotients or learning speed are those who have earned the greatest responsibilities in departments. I do not think this is a surprise in a business that develops and changes as rapidly as ours—high learning speeds are essential!

Perhaps you may feel that too much space in this paper is being devoted to the problem of selection. However, as you will see, it serves as a foundation for later discussion of the problems of education and training.

The colleges are our best single source of able manpower. However, we would be unwise to devote our recruiting efforts to them to the exclusion of other sources. We have but to look about us in the industry to see how many of our most able leaders did not have the advantages of a college education. Indeed they are in such sufficient number that some go so far as to suggest that we do not need the college trained man in our business. These leaders, however, are men of such calibre that even without formal schooling they were bound to reach the top of any industry. They are men, who by self-study and common sense observation, have achieved the breadth we try to give our college graduates.

This brings us to the consideration of our second important source of able manpower. Year after year high school principals lament the fact that outstanding men of the type mentioned above are graduating from schools so saddled with financial responsibilities that the higher edu-

cation to which they are entitled is denied them. In our department we have assigned one man the task of seeking out these unusual boys in the high schools. Within a fifty mile radius of Philadelphia alone eighty-five high schools are cooperating with us in the search for such men for our company. Our whole field force is charged with the duty of carrying on the search throughout the country. On the 25th of last month nearly 100 secondary school educators met with us in the Home Office to discuss this problem.

In selecting these youngsters, needless to say, an even more intensive screening process must be utilized than in dealing with college graduates. It is infinitely more difficult to judge the future capacity of a "teen ager". The high school graduate is therefore put through a probationary period ranging from six to eighteen months during which, by his work performance, he must earn his department head's recommendation for admission to the training school.

Another vital area for recruiting and perhaps the most important from many angles, is among our own employees. There are bound to be many employed by us in clerical or other capacities who have more ability than they themselves realize or than did we at time of hiring. Our department heads are constantly on the lookout for such individuals. In addition, the education department offers evening insurance courses. To assist in proper sectioning of these classes, learning speed tests are administered on a voluntary basis. These tests plus course performance are a valuable aid in uncovering personnel worthy of promotional opportunity and management training.

From the above selection methods you can see the necessity for our supplementing the education (rounding out the educational lacks) of our training candidates. Many of our college candidates have not attended Business Administration schools. The business education deficiencies of men from the other two recruiting sources are obvious.

So much for the initial phase of our problem; namely, that of recruiting and selecting the men to be trained in the schools. Now then, to what educational processes are they exposed? Let us take a brief look at the types of programs which we now have in operation:

1. Eight week classes for Local Agents—independent producers, *not* company employees.
2. A six months class for special agents or company field representatives. (This should not be confused with our short courses for Local Agents.)
3. A six months class for underwriters, claims and loss men. They are "inside" or "desk men", principally from the Home Office.
4. Night Classes at the C.P.C.U. level for employees in the Philadelphia area. Our field force may take the same course by correspondence.
5. A night course whose work is patterned after the content of Part I of the C.P.C.U. Examination Series but simplified for those comparatively new to the business. It serves as an introduction to the business.

The short courses for local agents, although definitely examples of insurance training, do not fit into the career pattern we are discussing because those in attendance are not in our employ. These classes at-

tune the agent to the insurance practices of the companies he represents, help him pass examinations for state licenses, improve his capacity to sell and assist him in his duties as an insurance counsellor. Although broad in scope, they are necessarily objective in presentation, concerned more with *how* insurance is written rather than *why*. Little time can be devoted to the "understanding of the economic consequences, social implications and political repercussions of their acts", which was referred to in the opening paragraphs. For these men night classes in college can do much toward increasing their understanding of the part they must play in the insurance industry and our whole economic structure. To strive for the knowledge required for the designation of Chartered Property and Casualty Underwriter should be an important goal for all these men and we strongly advocate that they pursue that objective upon completing our course.

The six months course or classes for company employees, which in the development of our school were actually the first ones organized, require more detailed explanation to show how they fit into the career pattern. With a plan established of recruiting for the company raw material worthy of education and training, the next problem was that of teaching methods and staff selection. Here several basic decisions had to be made. Since education and training were to be intermingled, how was it to be done and in what proportion? After much thought we have decided that there should be six months of formal schooling followed by training, a planned apprenticeship in department or field activity, the latter varying from a year and a half to two and a half years according to differences in specific assignment and the individuals' learning speeds. In the formal school the first three months are spent primarily upon insurance *education*, with major concern for the "whys" of insurance, and some of the "hows". The student is exposed to all Property and Casualty coverages; he learns the fundamental principles which underly the various lines and, above all, where to look for and how to discover the answers to various problems. To stimulate interest and satisfy the urge for practical application of theory, rating problems and specific risk analyses are gradually introduced, and these serve as a transition to the specialized training of the last three months, wherein education continues, but to a lesser degree as the emphasis is placed upon the fine points of specific skills.

This six months schooling is arduous, as concentrated as any offered by the armed services during the war. Classes begin promptly at 8:40, recess for an hour at lunch time and close at 5:12. Two to three hours of evening study are a minimum requirement for five days out of each seven. There are no extra-curricular activities, only occasional brief rest periods to break the routine. However, with nearly 300 hours of class time and 250 of study, a tremendous amount of insurance education can be assimilated in the first three months alone.

In the next three months of specialized training in either Fire, Marine or Casualty insurance the case or problem method is used. Staff instructors further drive home fundamentals. Department heads outline the specific problems, furnish information not available in other sources and upon the completion of the problems review the solutions in the light of actual practice.

A valuable tool in the education and training of these men is a working library for students' special use. It is in addition to our main library and is under the charge of a trained librarian and assistant. This library, built from scratch during the past two years, has drawn upon the experience and inspiration of the Insurance Society's library in New York. Only one of the many tasks of this library is the maintenance of nearly 1300 manuals for the students' use alone! Numerous digests of the best articles in current periodicals are prepared and circulated. The latest publications of colleges and the industry are swelling the new shelves.

After the specialized training in fire, marine or casualty insurance, the prospective field men get a fresh review of their across-the-board education by means of a week devoted to programming in which the multiple-line underwriting philosophy is re-emphasized. The course closes with analysis of financial statements and a study of present problems of underwriting capacities and reserves. In the next class there will be offered in addition a thorough training in the problems of agency management so that our field representatives may be of greater assistance to our agents.

The six months course for underwriters, claim and loss men—the third in our list of courses—is in many respects like that offered field representatives. Of course, underwriting and loss problems are studied in far greater detail. Production problems are emphasized less, but not much. More time is spent on contract law and closer scrutiny is given to borderline cases of risk acceptability.

A fundamental problem which faced our management at the time of the adoption of this entire educational program was that of selecting a teaching staff. The question was whether to follow the established custom of selecting teachers from among experienced insurance men or to risk the radical departure of attempting to convert experienced teachers of non-insurance subjects into experienced insurance instructors. The latter procedure was adopted and after only two years the results have already proven the decision to be a wise one.

It was thought best to hire men known for their success in teaching rather than in scholarship. The job ahead of these men would allow little time for research. Rather they are called upon to be inspirational teachers, able to organize their presentations effectively. They have to be capable of interpreting the scholarship of the universities and at the same time of integrating it with the practical experience of department heads and officers. However, before they could teach insurance they too had to go to school.

While these first instructors went to school all instruction was carried on by officers and department heads with the guidance of the Director of Education. Thus was begun a gradual evolution from instruction by experienced insurance men to teaching by our own staff instructors. Management gave A-1 priority to this problem. The first class limited to 15 men had 49 instructors, all officers and department heads! These insurance men gave lectures, conducted discussion groups, administered quizzes and marked them. Perforce, they carried home bulging brief cases for after-hours work. Eventually some of their students graduated as staff instructors who little by little relieved them

of their teaching load until now in the basic course the insurance specialists appear at the school only for summarization lectures and discussion prior to each unit examination. In the advance course they continue to sit for review of case problem solutions. Without the truly extraordinary cooperation of these men there could not be the type of teaching staff we have today—a staff capable of handling simultaneously the five courses already mentioned.

The staff training outlined has had an additional and paramount advantage. The procedure pooled the insurance knowledge of the companies' executives. The original lectures by department heads were transcribed and edited, thus producing the voluminous training manuals now available for student study. Today, lectures are virtually eliminated in the classes, the same material being studied in written form at home. These manuals also serve as up-to-date supplements to standard insurance texts. I repeat, these manuals offer not the writings, thinking or knowledge of one man, but rather the combined knowledge of 49 experts in company practice. The undertaking when conceived was truly stupendous, but now that it has been successfully carried to conclusion, the results are most profitable and gratifying.

The observation may well be made that too little time has passed to permit positive proof of the success of this venture. This is a very sane observation. My only rebuttal is the statements of managers and department heads; individuals who two years ago were sceptical to say the least! An expanding market and shortage of skilled manpower forced these supervisors reluctantly to send boys to do a man's job. The results, carefully recorded and analyzed, have been so spectacular that keen competition to gain assignment of these graduates has resulted. In the field, managers claim that these men are from 2½ to 5 years ahead of the development of men of the same age and general experience under our old training system. Further evidence lies in the fact that some of these young men, in the business only a year, have already passed the two insurance units of the C.P.C.U. Examination Series.

Not too well developed as yet are our plans for the *integrated* training of these men in their assignments after graduation. Note the word "integrated". Training facilities have long been established, but, because apprenticeship under seasoned veterans is the main tools, much needs to be done in standardization of the methods of the trainers. Many of these men are old hands with very positive ideas about how to train beginners. Some of these ideas are definitely outdated, not dove-tailing well with the training already begun in the Home Office. In these hectic times standardization of the trainers is a major task in itself and under present pressure might not be enthusiastically received. However, as the managers and department heads gain confidence in the education department we hope to do much to help in the dissemination of modern, effective training methods. In this we will lean heavily upon the valuable experience gained by our armed services during the last conflict.

Last year when the University of Pennsylvania Evening School offered a class in preparation for some of the C.P.C.U. examinations, five members of our education department joined the group. It was with some disappointment that we discovered ourselves to be the only repre-

sentatives of the North America. Investigation disclosed two reasons. One, the class was limited to 30 students in order to permit effective teaching and because teachers were scarce. The second reason was that our own company personnel needed to be sold upon the worthwhile work of the American Institute of Property and Liability Underwriters. This year after indoctrinating our personnel with the fundamental purposes of the C.P.C.U. movement and with the advice and counsel of Dean Loman, we are conducting our own classes by means of which our employees may prepare for the C.P.C.U. examinations. There are more than 125 employees enrolled in two such evening classes, over half of whom are planning to take at least the Part I examination. A third class of about fifty, as mentioned before, is taking a simplified course patterned after Part I of the C.P.C.U. Program. These night classes—the fourth and fifth in our list of courses—have relieved congestion at the University, have avoided discouragement to those of our employees who could not gain admittance, and have at the same time rounded out our educational program.

By these night classes we can remedy some of the insurance educational deficiencies, which, as we mentioned above, our selection methods create in the procurement of personnel of management timber.

To summarize then, it is our belief that a sound company program for the selection and training of future, capable leaders in the industry begins logically with a pattern of recruitment. No source of able manpower throughout the nation should be ignored. To seek men in the business schools alone of our universities, although it would simplify our training problem under present day educational circumstances, might deprive us of some of the possible insurance leaders of tomorrow. This type of recruiting demands an intermingling of education with training. Six months formalized schooling is followed by approximately two years training on-the-job. Night classes and extension course following the prescribed study program for the C.P.C.U. examinations help to review the insurance education of the business school graduate or offer partial remedy for the *business* educational deficiencies of liberal arts college or high school graduates.

Discussion

by

Hampton H. Irwin, C.L.U.

Educational Director

Massachusetts Mutual Life Insurance Co.

You have just had an exposition of one of the finest training programs in the life insurance business. Intensely practical though it is, its outstanding success can perhaps best be explained not only by the inherent soundness of the principles upon which it is based, but also by the consummate skill of its execution.

I should like to discuss briefly the background against which this training program operates as well as comment upon certain specific points which Mr. Gardiner raises.

It is essential to keep clearly in mind that the training program he describes is not wholly typical of the educational procedures used generally in the life insurance business. Mr. Gardiner presents a training program designed specifically to be used in a purely "ordinary" company (the Northwestern Mutual does not write so-called "industrial" business), and also a company which is organized on a general agency basis. We might say that "industrial" business is usually thought of as business written in units of less than $1,000 with premiums collected weekly, while "ordinary" business is written in amounts of $1,000 and up. Where both types of business are written by the same company it is obvious that both the knowledge involved and the skills required will differ from those necessary in a company writing only "ordinary" business. Under the general agency method of operation, the general agent is in a sense the sole proprietor, or entrepreneur, charged with the development of specific territory. Each general agent is at liberty to conduct his business as he sees fit, subject only to broad executive supervision by the Home Office. This is in contrast to the so-called managerial system where the company assumes the entire responsibility for operating each agency under the immediate supervision of a manager who is directly responsible to the Home Office and is usually given specific directions as to what methods and policies he shall pursue.

Granted that the training procedure must be adapted to the specific type of company and the method of organization involved, it is nevertheless true that with comparatively little modification, the principles involved are universally applicable. In addition, I think I am quite justified in saying that the Northwestern program—one of the most outstanding in the industry—has the tremendous advantage of being administered by one of the ablest educators in the life insurance business.

Turning specifically to Mr. Gardiner's paper, I was quite interested in the quotation from his former teacher, Dr. Cheadel, who pointed out that while the opportunities in life insurance are tremendous, the obstacles are likewise substantial, but "if you belong in the life insurance

business there is an advantage to you in the fact that it is not easy to succeed in that line of work." In passing, I note that this sage advice was offered by a lawyer—sales managers are supposed to see only the optimistic side of things.

It seems to me, however, that in sharing his experience with us, and in highlighting Dr. Cheadel's penetrating commentary, Mr. Gardiner has indicated one of the most important areas in which the university teacher of insurance and the company educator can meet on common ground. Life underwriting is a satisfying business, but only for those who really "belong" in it, and we should have no fear that a frank recital of the obstacles to be encountered—obstacles which are very real indeed—will deter such men and women from entering the business. Only the strong are wanted because only the strong can succeed. In the classroom, the professor has an unequalled opportunity to demonstrate this in a realistic and sympathetic manner through his teaching. We in the field are likewise obligated to use all the resources and judgment at our command to discourage the men and women who have been superficially attracted to life underwriting by its opportunities, but who do not have the interest, aptitude, and fortitude to follow through to success, and at the same time to encourage those who seem to possess the attributes of successful underwriters.

Mr. Gardiner defines the common problem of the university teacher and the company educator as the conversion of a likely student through the medium of education and training into a capable and efficient career life underwriter. Right here let me emphasize the point that we are primarily interested in *career* life underwriters. That is the reason the university part of the training is so vitally important. It provides the understanding and appreciation of basic principles as a foundation for the specialized activity and knowledge necessary for the most significant success in this business.

Mr. Gardiner definitizes the job of the life underwriter by dividing it into six specific operations which comprise the life insurance man's daily work. In addition to these six fields of endeavor he mentions the handling of requests for settlement agreement to carry out the wishes of the insured. Perhaps this matter of handling settlement options might well have been considered as the seventh essential operation in the day's work. From the standpoint of its social significance alone, a knowledge of the optional methods of settlement and the underwriter's ability to fit them to the specific needs of an insured call for the very highest type of professional skill. The technique of handling optional methods of settlement demands not only complete familiarity with the intricacies of their usage, but also a wide background of information in such related fields of business as economics, investments, wills, taxation, and the like. Such collateral knowledge is necessary in order that the policyholder's insurance estate and his general estate may be properly coordinated. Obviously, the university can be of tremendous assistance in giving the student a sound knowledge of insurance fundamentals and closely related business principles. This is particularly true if, under the guidance of men like yourselves, the student can select at least some of his courses with a career in life underwriting in view. Not only that, but where the requirements of the C.L.U. and the

C.P.C.U. designations are kept in mind, the professor can show the application of general concepts to insurance situations.

Mr. Gardiner also makes the extremely important point that "in an ordinary day's work the life insurance salesman will deal with perhaps eight or ten different prospects, each of whom is at one stage or another of this process." He then goes on to say that "the objective of the Northwestern Training Program is to make the salesman skillful in each of these steps." To my way of thinking, right here is the keynote of Mr. Gardiner's paper, and the cornerstone of any good training program —to make the salesman proficient in each and every step of his job.

Let me now comment upon Mr. Gardiner's statement that one of the fundamental concepts in his program is that "training and education are the general agent's job—and not a Home Office assignment." There is room for honest differences of opinion in this respect, due largely to the specific type of internal organization involved, and there are many who feel that the Home Office should be directly charged with most, if not all, of the responsibility for educating and training the agent. However, the Northwestern Mutual's training program is built around the philosophy that training is the sole responsibility of the general agent. It is understood, of course, that the Home Office will provide appropriate material, outline suggested procedures, and perhaps supply supplementary training which the general agent is free to use if he so desires.

The training plan is presented in two main divisions: (1) the "know-how—the acquisition of skills in selling by the new man"; and (2) the "know-what—the acquisition of essential knowledge; the facts of the business that the new man needs to have." These two main objectives are implemented by five distinct steps which, in turn, lead into preparation for the C.L.U. designation.

The first step in the actual training program consists of a two weeks' course which introduces the student to the business of life insurance in general and the Northwestern Mutual in particular, and includes a great deal of elementary sales information. Note especially, however, that the student is required to write out an examination in order to get his certificate—sound pedagogic procedure that.

Then the agent begins his initial work in the field, and simultaneously begins the "Thirteen Weeks' Reporting Program." Mr. Gardiner points out that this Reporting Program is peculiar to his company in the life insurance field. Certainly it is unique, but I should like to observe that its well-nigh certain effectiveness depends in large measure upon the personal ability of the man who administers it. I am sure that you have guessed it is Mr. Gardiner himself. He has taken what is often considered to be the most studiously avoided, if not actually the most unpleasant part of the agent's work—I refer to reporting—and has transformed it into a constructive influence of the first magnitude. The results speak for themselves.

Now, comes the Intermediate Course, which is based upon "a case book study of successful life insurance sales made currently by Northwestern Mutual salesmen." Note the intensely practical and personal approach. The agent is shown, step by step, exactly how the most suc-

cessful underwriters in his company are actually solving the financial problems of their clients through life insurance.

Following this, there is the "Career School." I like that adjective "Career," and it is the intent of the school to begin to train the student further in the intricacies of career life underwriting.

The fifth step in the training program consists of a two year study of the various phases of advanced underwriting such as business insurance and estate analysis.

As we have said earlier, all of these five steps lead directly to the C.L.U. Study Program, prescribed by the American College of Life Underwriters. The designation of Chartered Life Underwriter which is awarded upon the successful completion of the C.L.U Study Program represents the official certification of professional attainment.

Throughout the entire training period, the general agent is never left solely to his own devices. He is given a Training Guide which is also a timetable and a "check list" against which he can chart the status of each agent he has in training. Right here let me say that although Mr. Gardiner has dismissed with very few words the fact that 'training the trainer" is a highly essential part of the plan, I can assure you that this phase of the training procedure is given very close attention in his company—supervised principally under his personal direction, and its success contributes very largely to the effectiveness of the entire training program.

May I take the liberty of expanding this concept still further. The primary objective of a well-arranged training program is, as we have seen, the development of career life underwriters, but a secondary objective should be to discover and point toward supervisory and executive positions both in the agency and the Home Office those who appear to possess the necessary qualifications for such duties. You will note that I have not referred to executive work as necessarily a "promotion" because not a few successful career life underwriters properly feel that their calling compares quite favorably with that of the executive whether from the standpoint of duties to be performed, the social significance of the work done, or the financial remuneration received. Nevertheless, it is essential to train for executive positions those who in addition to being successful life underwriters also seem to possess the additional characteristics and aptitudes essential for executive work. Here again our friends in the academic world can be of tremendous assistance in giving the cultural and business backgrounds which are so advantageous in developing the broad-gage executive. I might even go so far as to say that successful sales ability is assumed when we select for sales management positions, but the prospective executive has a great advantage if he has already received his basic training in college or university and consequently has a sound foundation upon which to build the specific skills of sales management.

Mr. Gardiner points out that "the true test of training effectiveness is the production of a satisfactory quantity of high quality business by

our new salesmen." By this test, surely the Northwestern Mutual's Training Program is eminently satisfactory. Would it be going too far to point out that a training program also justifies itself on the basis of the type of men it keeps in the business and the social effectiveness of their daily work? In these attributes as well, the Northwestern life underwriters are outstanding.

In closing, may I say that in my judgment in presenting the Northwestern Mutual plan for your consideration Mr. Gardiner has given you an exposition of one of the finest training programs the life insurance business has thus far developed.

Discussion

By Professor J. Edward Hedges, Indiana University

My particular assignment is to discuss Mr. Abbott's paper and his presentation of the North America's most heroic undertaking. I am sure we all feel privileged to have had this opportunity. I think it is particularly appropriate just at this time for us to see the outlines of a program of this type. During the next few minutes I should like to bring out the reasons why I believe this is true and to make certain comments regarding Mr. Abbott's program as he has presented it to us.

The North America Educational program, it seems to me raises certain vital issues. To consider those, we must keep in mind several very fundamental propositions. First, we are in the midst of an unprecedented bulge in educational and training activities, in large part, I think we will all agree, supported by G. I. benefits. Now, only to the extent that the educational activites being developed under that impetus are successful and accomplish the desired objectives, will those activities be continued after that support is withdrawn. I think we must face that fact realistically.

Second, while an expansion of educational activites in the insurance field, particularly in the field of company training is perhaps long overdue as witness, for example, the study recently released by the Wharton School, made under the directorship of Mr. Kip, it appears to me that just now insurance is probably coming in for a disproportionate share of the increase in educational and training activities. That is certainly true so far as company and association plans are concerned. So far as the work of educational institutions goes, I am not so sure. So far as I know, we have no authoritative figures since the release of the study made in 1940 by Dr. McCahan and Miss Kelly. At that time, certainly, the educational activities in the Property-Casualty field carried on by educational institutions were inadequate to meet the requirements.

Third, insurance educators, I believe, are pretty well agreed on the blueprint of a plan for collegiate preparation for careers in insurance. I take it that the McCahan-Loman paper of last year met pretty general acceptance as a minimum standard. Some of us, perhaps, will regard it as an ideal rather than as a minimum.

Fourth, there seems to be no such general agreement among company educational and training directors as to the appropriate blueprint of a plan. Certainly that is true if we judge from the infinite variety of plans that are in operation today.

Fifth and finally, as a general proposition, I believe that right now is the time to begin thinking seriously of coordinating the educational activities carried on on the college campuses with the training activities being undertaken by the property and casualty industries. And the problem goes further than simply the coordination of educational and training activites. It includes the matter of guidance, going as low

as the high school level, and I am very happy to see what Mr. Abbott indicates is being done by the North American companies in getting into the high schools to indicate to people who have potentialities for success in the business, the opportunities that exist for them in the Property and Casualty field. As I see it, we have a problem of coordinating a whole range of interrelated activities including, as well as education, the functions of guidance, of recruitment and placement, and of follow-up after the recruit has been inducted into the business, has been given training and has gone into the apprenticeship stage and even beyond that.

I wish we might have more time for discussion here than apparently we will have. I should like to suggest, however, that as an association we continue our consideration of the issues that may be raised, and that the Association's Committee on Collegiate Preparation for Careers in Insurance, undertake some study of the problems of coordinating the work of educational institutions and of the companies, including some consideration of this problem of guidance, recruitment, placement and followup. The longer the effective coordination of our efforts is delayed, certainly, the longer it will be before our schools of business and departments of economics adequately meet their responsibility for service to the property and casualty industry and the longer we will be delayed in rendering maximum service to our students and to the insurance buying public.

As to Mr. Abbott's paper itself, the first issue I wish to raise is this: Apparently there is no provision for adjusting the six months' training program for the college recruit to the situation of the student who has had all or a substantial part of the minimum program proposed by Drs. Loman and McCahan. I may be mistaken. In any case, however, there is certainly an answer; namely, judging from the 1940 report of Dr. McCahan and Miss Kelly, the field for recruiting people with that minimum program is very, very limited. Nevertheless, I believe it is true that unless there is some provision made for adjusting the program to the situation of the student who has had a substantial amount of college preparation for insurance, then the incentive for the student to secure that sort of preparation is going to be lacking. Why undertake any such study in college if the company is going to do the whole job? If we refer to the requirements of that minimum program, we find a recommendation for 240 class hours, including a survey course, a course in fire and marine insurance, and a course in casualty insurance, including Workmen's Compensation, and fidelity and surety bonds.

Mr. Abbott indicates that during the first three months of the program for training field representatives, 300 hours are spent in class and approximately 250 in preparation outside of class. The student who has had the minimum program, if we adopt the rule of thumb of two hours outside preparation for each hour in class, will have had 720 hours as against the 550 hours in the first three months of Mr. Abbott's program. Perhaps the subject matter covered will not be identical, but at any rate, there would appear to be considerable overlapping.

I would like to suggest, in view of this fact, not only to Mr. Abbott, but to other training directors, educational directors, that first of all,

they decide whether they like the minimum program or not. If they don't like it, tell us why and we will see if it can be adjusted to meet their requirements. If they do like it, then I would suggest that they give what service they can in publicizing it among the institutions where they do their recruiting. It is one thing for the insurance teacher to say to his dean, "Here is a program that I think is fine." It is another thing for that word to come to the dean from a recruiting man who is visiting the campus to secure employees for his company. And if, in addition, we could know the probable needs in terms of the number of graduates with such training who might be required each year, I am sure we would all be grateful.

Now for the person who does not have the minimum program—what of him? The plan appears to be designed for the person with a satisfactory background in business and economics subjects, and if he does have this background, Mr. Abbott has said the rounding out process is designed to take care of him. Suppose he has had no such training? Suppose he has not had fundamental courses in economics, accounting, government, statistics, marketing and the other courses that the student in the business school tends to get in his freshman, sophomore, and to some extent in his junior year? I wonder what provision has been made for filling that gap. Certainly, extension courses of the universities can be helpful. But, in my opinion, and I think in the opinion of many educators, such background courses should precede more intensive job training and certainly should precede the "why" training in the insurance field.

The other part of the business program which the recruit should have at some point includes advanced subjects such as money and banking, corporation finance, investments, advanced accounting, taxation perhaps, principles of management, and other courses at that general level. Those, too, can be furnished in many cases by extension classes of colleges and universities, night classes, correspondence and so on, and those, I believe, can be introduced in the later stages of the job training process. In many cases, in fact, education of this kind should continue for a good many years, just as the higher levels of insurance education and training should continue for many years, during the student's active participation in the business.

But, in any case, those subjects are the job of the educational institution and the company program should be coordinated with the facilities available in educational institutions.

I made some little investigation of the psychological tests mentioned in the North America brochure, but I will spare you any specific comment on those. I do want to say however, that I am very happy to have heard Mr. Abbott say the tests are used only as a check, and even happier that his organization is in the process of validating those tests. I want to venture the sincere hope that after an appropriate lapse of time this Association may have the benefit of Mr. Abbott's experience with them. That sort of information is very badly needed.

Mr. Abbott makes the point that case materials are used extensively in his program. Perhaps it is too much to hope that some of those materials may be made available to insurance teachers in schools of business. To my mind, one of the most serious gaps in our teaching

materials is that lack of case study materials—not of the law case type we have those; but of cases having to do with underwriting problems and business operations generally.

Another point that was made in the paper had to do with the spotlighting of graduates. Apparently the problem of selling the training program and the product of the training program to the members of the organization nationwide and worldwide, has been well done. But, for the training director who is starting a program, I think experience has this to suggest: That we move very, very slowly in spotlighting those people. Let them sell themselves and as they sell themselves, they will sell the program. Of course, one always needs to let the trainee know that he is being watched; that a friendly eye is being kept on him. Otherwise, he gets the impression that he has been shoved into something and forgotten, which, of course, is extremely bad.

I would like to comment on another point. That is the matter of working with the personnel director in the university to contact potential recruits as early as the sophomore year. This would be very, very excellent if it could be done. It is an important part of the guidance program. But, I believe that it is necessary in most institutions to go beyond the placement or personnel man in the university. I believe it is necessary to go down to the guidance officers in the freshman year, or certainly the sophomore year. In every case, however, the organization of guidance in the particular institution would determine the appropriate point of contact.

One of the problems I have faced is that of getting the information about careers in insurance to students at the proper level, while there is still time to do something about the education they may get on the campus. Time after time, a student comes to me in his senior year, perhaps the last semester, or even after he is graduated, and tells me he is going into the insurance business; what can he do to get ready for it? Well, it is too late to do much about getting ready for it then. So, if something could be worked out so that the necessary information could be had at the proper stage in the career of the student, I am sure it would be helpful to all of us.

I have one final comment, which has to do with the method of staffing the training school. I feel most strongly that the method used by Mr. Abbott, of recruiting successful teachers and then training them in the subject matter to be taught is the ideal one. All too frequently knowledge of the subject matter has been regarded as the important prerequisite for teaching in a company school. And all too frequently a good insurance man has been lost, only to gain a mediocre teacher. Persons having the aptitude, training and experience required for successful teaching, while not too plentiful it is true, are not nearly so rare as the person trained in insurance who also possesses the attributes required to do a good teaching job. On the other hand, the well qualified teacher can readily acquire the necessary familiarity with the subject matter of insurance and thus assure an effective job of instruction. The success of the North America program is strong evidence that such is the proper view.

Discussion

By Warner C. Danforth, Superintendent, Education Department, Employers' Liability Assurance Corporation, and Acting Head, Insurance Department, School of Business Administration, Boston University.

I have been very interested as I sat here listening to Mr. Gardiner and Mr. Abbott, as they told you about the educational programs of the insurance companies which they represent. I have received many valuable ideas as no doubt you have also. I have listened both as an instructor in a university and as a company educator.

Since both papers are factual presentations of successful company educational programs, I think that I can probably be of greatest assistance if I enlarge upon some of the subjects that they mentioned.

Both gentlemen stress the importance of the selection of personnel. You will remember that they mentioned three sources of manpower: Colleges, secondary schools, and those currently employed by the companies.

About college graduates, there is not much that needs to be said. Presumably any one who has spent four years in college, and then seeks employment in a given field, as given the matter some thought, and it is reasonable to expect that the majority of these people should have a definite aptitude for the business. Of course if one goes into the schools soliciting personnel, much screening and interviewing is necessary.

As regards High School students, the subject has been covered rather thoroughly. I would like to add one point for your consideration. That is, high school graduates would be required to work for several years in departments before training them as salesmen, since the laws of most states require that a person be twenty-one years of age before applying for a license.

The third source of personnel and the one which is most commonly overlooked are those persons already in our employ. In my opinion too much cannot be said about the necessity of being constantly on the watch for any employees who could benefit themselves and better serve our organizations, if they were properly educated. Many times we pass over a person well oriented to the insurance business and one who would make an excellent underwriter or field representative simply because we are accustomed to seeing them in the filing room or supply room.

Mr. Abbott mentioned aptitude tests as one of the screening techniques. We, in the Employers', have done some research on this subject and the results may be of interest to you.

The highest possible score on the Personnel Tests would be 50—The grading is as follows—below 20 poor; 20-24 Fair; 25-29 good; 30-35 Very good; 36-40 Excellent.

TESTS	*CLASS ROOM STANDING*
Mr. A 32	3
B 30	6
C 27	2
D 25	5
E 24	1
F 23	4
Mr. G 35	1
H 33	3
I 33	4
J 28	5
K 26	2
L 24	6
M 23	7
Mr. N 40	1
O 36	3
P 35	8
Q 34	7
R 34	4
S 34	5
T 30	6
U 30	9
V 27	2
W 23	10
X 23	11

It is easily discernible from a study of these tables that almost without exception the pupils did in the class room what their aptitude tests said they would.

I would like also to emphasize the value of what Mr. Abbott calls "on the job-training" and Mr. Gardiner refers to as reporting program. Basicly they serve the same need, that of assimilating the students into the organization and assisting them until such time as they become self-sufficient. It is not enough to furnish a person with tools, we must be sure that he knows how to use these tools to the best advantage.

Up to this point, I have discussed these papers as a company educator. I would like to take the time remaining to speak briefly on the point of view of a university instructor. My viewpoint can never be purely academic, since I am primarily a company man. I am sure that every instructor here will agree with me that we are endeavoring to make our course valuable. To this end we welcome constructive

criticism. Learning a subject from a text book never has been and never will be the vital experience that handling a problem face to face can be. Accordingly, we are seeking at Boston University to make our courses live by injecting into them problems and experiences which they would meet if they were working in the field. In so far as possible, we are employing as instructors men holding responsible positions in insurance companies who also are qualified to teach. It may be interesting to note in passing that at Boston University we have 1192 students in insurance courses—over 400 come from Insurance Companies and Agencies, and 100 are preparing for the C.L.U.

May I say in closing that I consider this joint meeting a big step in the right direction, a closer relationship between the two groups cannot help but result to the advantage of both.

Cost, Supply and Demand Problems of Medical Care

by

Frank G. Dickinson, Ph.D., Economist and Statistician, American Medical Association

When asked to prepare a paper on this subject several weeks ago I thought it would be possible to develop all three topics in the twenty minutes available. As is often the case one finds more material on one phase of a subject and reluctantly decides to concentrate on that one phase. For me today that phase is the cost of medical care. But I would like to indicate in approximately two minutes certain broad aspects of the supply of and demand for medical care.

Roughly there are 200,000 living M.D.'s in the United States. Fewer than one fourth of them are not in active practice; they are retired, in training, in teaching, and research, hold full time appointments in health agencies, are engaged in nonprofessional work, etc. The Bureau of Memical Economic Research of the American Medical Association plans to publish a detailed classification of all living M.D.'s late in 1948. We shall have four punch cards for each physician.

The supply of physicians is still under the shadow of war. Fifteen to twenty thousand physicians are in graduate training. The bulk of them are discharged medical officers of World War II who felt inadequately prepared for active practice, especially those who were graduated in the speed-up medical training of the war years.

The net addition to ranks of living M.D.'s was 16,000 during the five war years (July 1, 1942—June 30, 1947) as compared with 7,000 during the previous five years (July 1, 1937—June 30, 1942). 1948 will witness a peak number of physicians entering private practice. (Dentists number 77,000, graduate nurses 156,000 etc.)

The geographic distribution is too large a subject for more than passing comment. The medical profession has not gone against the strong trend towards urbanization which has materially affected most professions and occupations; also the revolution in trading habits wrought by phenomenal transportation changes during the past few decades has brought about a new grouping of physicians and the patients they serve into medical service areas of which there are approximately one thousand that blanket the 48 states with their 3,070 counties. No longer can the population-phyisician ratio of a county indicate any pertinent fact about the adequacy of the supply of physicians in the county, for hard roads have made the county a political and economic anachronism. I hope that when our association meets next year the Bureau's study of medical service areas will be nearing completion. So much for the supply of physicians.

There are more than 6,200 registered hospitals with almost 1,500,000

beds. Two-thirds of the babies born in 1946 were born in hospitals; in many states of the north and east this percentage exceeds 80.

The present demand for medical care is very different from what it was a decade ago and probably very unlike what it will be a decade hence. The peak birth rate, high consumer incomes, the increasing number and percentage of older people, not to mention the wonder drugs and other revolutionary changes in medical treatment have combined to confront even the most courageous student of demand functions with a rather formidable array of puzzling variables. In addition there are many unmet medical care needs, a field of study in which the Department of Rural Sociology at Michigan State College is doing some fine work. So much for demand.

The Costs of Medical Care

We can throw further light on many demand and supply factors by an examination of the medical care expenditures of the people. The cost per treatment is too unwieldly for this discussion. Hence the rest of this paper will treat aggregate consumer expenditures for medical care.

Consumer Expenditures

The United States Department of Commerce has published, from time to time, estimates of the total consumer expenditures of the American people. The data for 1929 through 1946 were made available recently in the National Income Supplement to *Survey of Current Business*, July, 1947. Table 30 in that issue contains 206 lines or items of consumer expenditures. They are divided into twelve classes; Class VI (18 items) is entitled "Medical Care and Death Expenses." The last three items are death expenses and may be eliminated here. The first 15 items are: Drug preparation and sundries, Ophthalmic products and orthopedic appliances, Physicians, Dentists, Osteopathic physicians, Chiropractors, Chiropodists and podiatrists, Private duty trained nurses, practical nurses and mid-wives, Miscellaneous curative and healing professions, Privately controlled hospitals and sanitariums, Net payments to group hospitalization and health association, Student fees for medical care, accident and health insurance (net payments), Mutual accident and sick benefit associations (net payments).

The amounts of consumer expenditures are given for each year, 1929 through 1946. The total item for 1946 medical care is broken down into only three items, so the last year will be 1945 for any particular item of medical care.

Before examining these data on the cost of medical care in the United States, it is well to note the limitations of the data. Consumer expenditures are made by people primarily as consumers, not in their role of taxpayers. The footnotes to table 30 in the National Income Supplement and the discussions in previous issues of the *Survey* lead to the conclusion that consumer expenditures have been defined so as to exclude certain payments made by the government for medical care of citizens. For example, the item entitled "Privately controlled hospitals and sanitariums" covers payments by patients to proprietary hospitals plus the operating expenses of non-profit hospitals. The expenses

of operating governmental tuberculosis sanitariums and veterans hospitals are government items and are specifically excluded from these compilations. Similarly, the item for physicians' services includes the gross receipts which physicians in independent private practice derive from individuals. Payments to physicians in governmental hospitals are excluded as are payments to physicians in independent private practice from insurance companies, from businesses paying on a fee basis, and the like. The series is internally consistent for the period 1929-1946, and my treatment of the data and the resulting conclusions are conditioned by these exclusions. It would have been exceedingly difficult to process these data if the medical care of veterans, a cost of war, had been included; likewise the inclusion of peacetime expenditures for government hospitals would have required an extensive foray into the tangled field of public finance. So long as the medical care series is consistent and its limitations are understood, the data can be processed. One further limitation: Data on medical care for the war years are greatly affected by war conditions, notably by sharp reductions in the number of civilian doctors, dentists, nurses, and allied personnel. Do these exclusions conceal the increasing cost of medical care borne by the government? Very briefly it can be stated that a review of hospital bed utilization data suggests that this is not true.

The 15 medical care items may now be placed in three compact categories: (1) physicians, (2) hospitals, and (3) other. It is then possible to make a comprehensible comparison of the expenditures for these three items combined as a total and for each of the three components thereof with certain of the other consumer expenditures. Although we are dealing here with national aggregates it is worth noting that only the fees of physicians in the total amounts spent for medical care are assumed to be geared to the ability of the patient to pay. It would be meaningless to compare the expenses for medical care with those for food because food is such a very large item. Five groups of items are chosen for making the comparisons: Alcoholic beverages, Recreation, Tobacco, Personal care and Jewelry. Considering medical care as a single item, this grouping gives six items. Together these six items constitute 72 of the 206 lines in the table on consumer expenditures and approximately one-sixth of the total expenditures. These six items are chosen because they are of comparable size.

This highly statistical information can be demonstrated more effectively by the use of slides. These charts appear in a twelve page pamphlet, *Is Medical Care Expensive?*, published recently by the Bureau of Medical Economic Research, American Medical Association. Chart I shows dollar expenditures for the six selected items during each year from 1935 to 1946. The totals of these six items range from a low of 7.6 billion dollars in 1933 to an average of 11.8 billion dollars for 1935-1939 (which five year arithmetic mean will be used as a base period) to a high of 29.4 billion dollars in 1946.

It is worth noting that since 1941 the largest of these six selected items is alcoholic beverages. The total cost of medical care ranged from two billion dollars in 1933 to 5.6 billion dollars in 1946, roughly two-thirds of the amount spent for alcoholic beverages. This chart shows the

Chart I.

SELECTED CONSUMER EXPENDITURES IN THE UNITED STATES, 1935-1946

Billions of Dollars

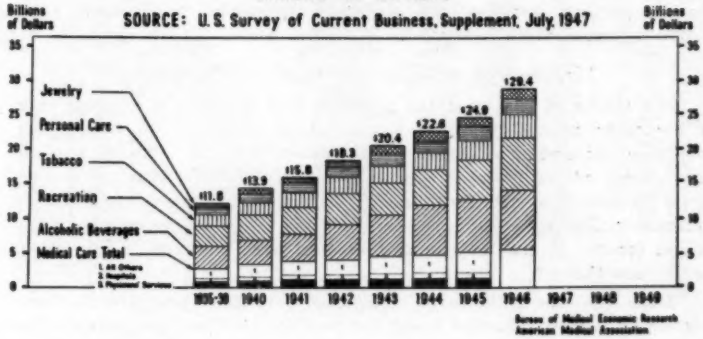
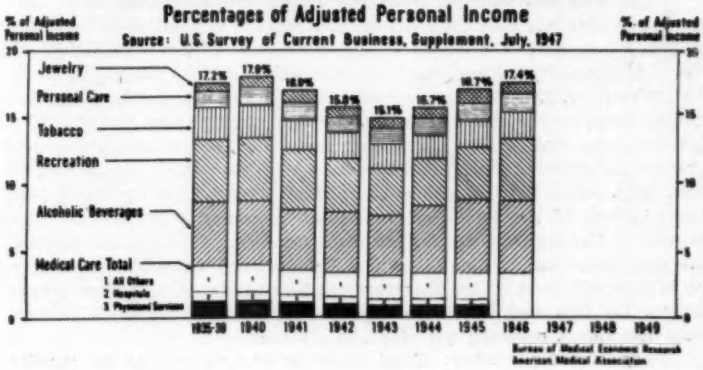


Chart II.

SELECTED CONSUMER EXPENDITURES IN THE UNITED STATES, 1935-1946

Percentages of Adjusted Personal Income



change from year to year in the totals of the six items as well as the component parts thereof.

Using the 1935-1939 average as 100, the cost of medical care is shown to be up to 211, alcoholic beverages up to 277, recreation 253, tobacco 210, personal care 253, and jewelry 408. Thus medical care and tobacco have been the slowest moving items. The component parts of medical care, physicians' services and hospitals, especially the former, have moved up much more slowly than any other items.

Medical Care Costs and National Income

The ability of the American people to pay the cost of medical care is obviously related to their income. On Chart II these selected consumer expenditures have been shown not in dollars but in percentages of total annual personal income for the year — a new series developed by the Department of Commerce. Here the *Survey's* personal income amounts have been adjusted to exclude payments to the armed forces. It can be seen that medical care is clearly a decreasing percentage thereof.

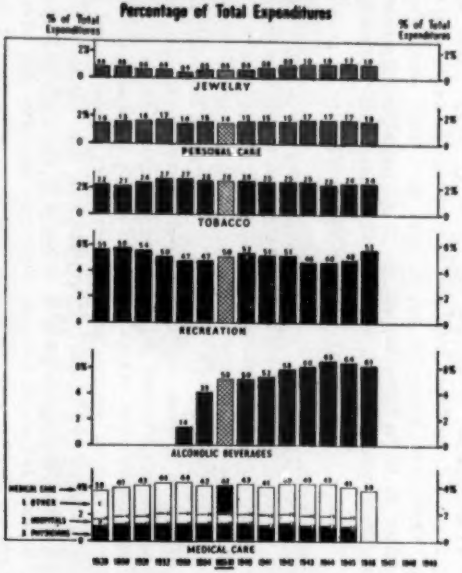
Since 1940 the dollar cost of medical care has risen, but the proportion of personal income spent for medical care has decreased. The same statement holds true for the services of physicians and hospitals. This general statement should be placed in proper perspective. The item for medical care looms largest as a percentage of personal income in the period of depression; during 1932-33 it was 4.4 per cent of personal income. The lowest percentage, 3.2, was reached in 1943 although there was practically no variation during the period 1942 to 1946.

Those who are worried about the rising cost of medical care are entitled to conclude that the costs of medical care in relation to personal income are highest in a period of depression and lowest in a period of frenzied prosperity. Physicians' services declined from 1.2 per cent in the base period, 1935-39, to 0.9 per cent in 1945. The hospital item has decreased from 0.7 per cent in the base period to 0.5 per cent in 1945. The governmental medical care exclusions mentioned earlier should be recognized in drawing this conclusion. Again, the data are internally consistent. This item has been more stable than either the total personal income of the people or their total consumer expenditures. The balance of the expenditures for medical care moves *with* and not against the fluctuation in personal income. This general conclusion seems to be in line with most of the literature on distribution of consumer expenditures for this and earlier periods in our economic history. Medical care acts like a necessity yet also like a luxury.

To go one step further: Total consumer expenditures do not usually equal the national income. Total, personal consumer expenditures plus personal savings equal disposable personal income, which, plus taxes equals personal income. Accumulated savings are often overstated by the amount of government debt which is both a liability and an asset of the American people. It is therefore necessary to examine medical care expenditures as a percentage of total consumer expenditures. The results of these compilations are presented in Chart III. Again it can be said that regardless of the denominator used, the relative size of medical care expenditures was at a maximum at the bottom of

Chart III.
SELECTED CONSUMER EXPENDITURES IN THE UNITED STATES

Percentage of Total Expenditures

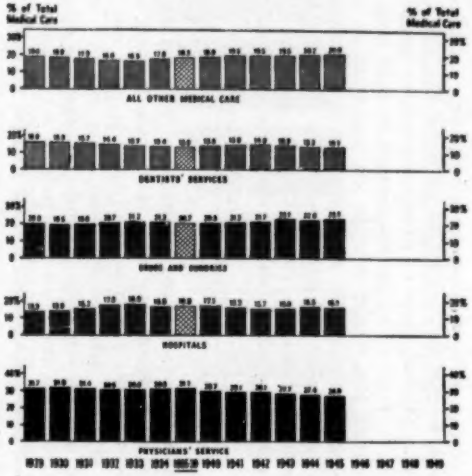


Source: Survey of Current Business

Bureau of Medical Economic Research
American Medical Association

Chart IV.
PERCENTAGE DISTRIBUTION OF EXPENDITURES FOR MEDICAL CARE IN THE UNITED STATES

Total Expenditures for Medical Care = 100%



Source: Survey of Current Business

Bureau of Medical Economic Research
American Medical Association

the depression in 1932 and 1933 and that they have been on the decline since 1940. Expenditures of medical care reached a high of 4.4 per cent in the years 1932 and 1933 and since declined to 3.9 per cent in 1946; the same downward trend is noted in expenditures (percentagewise) for physicians' services. For hospials the percentage has remained at 0.7, the base period level. These facts are noteworthy because of the increasing use of hospitals by the American people; comparable data were not available on the trends in the number of patient visits and surgical cases—both rather inadequate measures of the amount of service rendered by physicians to patients.

Annual expenditures for alcoholic beverages since 1940 have become a larger percentage of total consumer expenditures every year except for 1946. There is no ready explanation for the slight decline from 6.4 per cent in 1945 to 6.1 per cent in 1946.

The Medical Care Dollar

It should be of interest to examine the "medical care dollar," using 100 cents for the expenditure of all medical care items in each year. How many cents have been paid to the physician, how many to the hospital, how many to the dentist, and how many on the other items in medical care? Chart IV shows the percentage distribution of medical expenditures, 1929-1945. Chart V shows these expenditures as cents in the medical care dollar for selected years—1929, 1935-1939, and 1945.

The physicians' share in the medical care dollar has declined from 32 cents to 31 cents to 27 cents; the dentists' share has declined from 16 cents to 13 cents. On the other hand, the hospitals' share of the medical care dollar rose from 13 cents to 17 cents and fell to 16 cents in 1945. Drugs rose from 20 cents to 21 cents and finally to 23 cents, undoubtedly reflecting the large expenditures for the so-called wonder drugs.

Conclusions

These findings necessarily lead only to a rather general conclusion because the probable errors in the data do not warrant more specific statements. It is simply this: Although the costs of medical care and as parts thereof, the services of physicians and hospitals, have risen by leaps and bounds in recent years, the national income and total consumer expenditures have risen as, or more rapidly.

In all this, one thing cannot be reduced to statistics—the superior kind of medical care that the American people are now getting in contrast to the 1929 variety. The contrast is comparable to a 1946 car and a 1929 car. These data measure a service, the quality of which has been improving throughout the entire period.

What do the American people get as a result of this higher quality? They recover from their illnesses. They recover from injuries. They go back to productive lives. They live longer. Chart VI shows life expectancy for selected years during the century 1847-1947. In a certain sense, average length of life is a measure of social progress to which the physician is one of the major contributors. In the heyday of the Roman Empire the average lifetime was only a quarter of a century. In 1700 in Germany the average lifetime was approxi-

CHART V

THE MEDICAL CARE DOLLAR

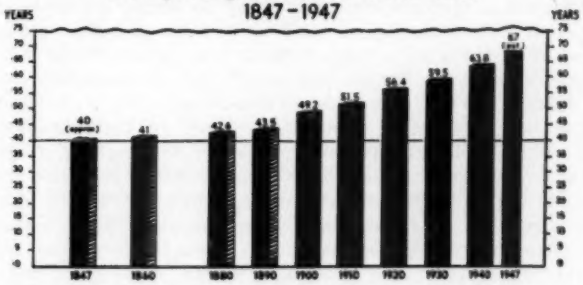
Source: Survey of Current Business

BUREAU OF MEDICAL ECONOMIC RESEARCH
AMERICAN MEDICAL ASSOCIATION

CHART VI

A CENTURY OF PROGRESS IN THE QUEST FOR HEALTH
DIVIDENDS DECLARED – QUARTER CENTURY LONGER LIFE

Life Expectancy At Birth in the United States
1847–1947



1. Beginning with 1900 colored population in registration areas is included...

2. Average life expectancy at birth for 1947 estimated by the Bureau; data will be available in April, 1949. White female life expectancy at birth is already over 70 years. The Bureau estimates that the average for all will rise to 70 years before 1955.

mately 33 years. In the United States in 1847 it was approximately 40 years. The Bureau of Medical Economic Research has estimated for 1947 a life expectancy of 67 years. Modern medical care costs money, for it costs money to postpone death.

Those lay and professional people who direct the expenditures of Americans for medical care may be expected to derive no more than a fleeting moment of satisfaction from these conclusions regarding the costs of medical care. The demand for improved medical care is wellnigh insatiable, and those who try to provide it are subject to easy criticism. They know that the quest for health, improved medical care and longer life is never-ending. They have an unlimited opportunity to improve medical care and at the same time are exposed to the challenge of attaining one goal only to find that the goal has been moved up. So long as pain comes too often and death comes too soon to human beings truly adequate medical care will remain beyond our reach forever.

Commercial Group Medical-Hospitalization Covers

by

Albert Pike, Jr., Actuary,

Life Insurance Association of America

Public interest in medical care is high. It is high not only in the scientific and clinical aspects of modern medicine, but also in the means of paying for it. Public health proposals have a sure-fire political appeal. This was recently illustrated when the mayor of New York could think of no better way to excuse a necessary, but politically dangerous, proposal for an increased subway fare than on the grounds that the additional revenue would release tax money which the city could then spend on the people's health.

The problem of better medical economics has many sides to it, but perhaps the most obvious development in recent years has been the spectacular growth of hospital and medical insurance plans. The most widely known are the so-called non-profit or Blue Cross prepayment hospitalization plans which have been developed under community sponsorship. Concurrent with the rise of such plans has been the sale of a very considerable volume of group insurance coverage underwritten by the regular insurance carriers—hospital expense insurance, surgical expense insurance, and general medical expense insurance. These have not been community sponsored measures, but are extensions of employee benefit plans, usually established by employers and in a great many instances subsidized by them. Community sponsorship and employer sponsorship of measures to improve the distribution of good medical care are somewhat differently motivated, but they are both in the best democratic tradition in their approach to the problem at the local level.

The group insurance movement started with life insurance around 1912, and was shortly thereafter extended to accident and health insurance. For many years, however, group accident and health insurance consisted only of weekly indemnity coverage to compensate for wage loss during illness, and one-sum accidental death and dismemberment coverage much like the double indemnity coverage available under individual life insurance policies. Around 1932, several group-writing insurance companies began experimenting with group hospital expense insurance, and in 1938 group surgical expense insurance. Very recently, the sale of group medical expense insurance for other than surgery has been begun. At the end of last year we estimate that 10½ million individuals were insured in life, casualty and accident and health insurance companies for group hospital expense insurance, 8 million for group surgical expense insurance, and one-half million for group medical expense insurance. Each of the first two of these totals is currently being increased at a rate of better than 2 million a year.

Practically all group insurance coverage is underwritten on groups of individuals brought together through common employment. The employer-employee relationship provides the glue, as it were, which holds a plan together so that it may be treated as an insurance unit without regard to the insurability or non-insurability of particular individuals. More often than not, the employer pays a substantial part of the premium for the group insurance coverage, and by this means the plan is made attractive to all eligibles. Employer subsidy has become the rule for group accident and health insurance even though such insurance can, strictly speaking, operate without the employer participation so essential to group life insurance because of the necessity there for subsidizing the insurance on the older employees. Most group hospitalization, surgical and medical premium rates do not depend upon age, and even when moderately loaded to reflect the substantially greater rate of claiming by women as compared with men, the premium rate for the men remains attractive. Employer participation in the cost of a hospital or surgical care program has been found to pay off in better employer-employee relationship. Many group writing companies have found that any negative sales value which exists in an underwriting requirement of a reasonable employer contribution is more than offset by the better and more persistent character of the business produced. There are still many group hospitalization, surgical and medical insurance policies being sold without an employer contribution to the cost, but their proportion seems to be rapidly decreasing.

You may be interested in a brief description of typical group insurance plan providing both hospitalization and surgical expense insurance for both employees and their dependents, the latter generally defined as the employee's wife and unmarried children under the age of 18. Coverage is provided by a master policy issued to the employer. Insured employees receive certificates evidencing their own coverage and that of any of their eligible dependents who may also be insured. Participation in the plan is made available without evidence of insurability to all full-time active employees, and their dependents, but at least 75% must enroll under the plan before it commences. Benefits are provided for each period of hospitalization, rather than for each "benefit year" as under most non-profit plans, and consist of an allowance of a stated number of dollars a day, up to a limit of 31 or 70 days, for the cost of hospital room and board, plus an additional allowance for other hospital charges up to a limit of 5 or 10 times the daily rate for room and board. Benefits for surgery consist of an allowance for the cost of the operation, up to a limit specified for the particular procedure in an extensive schedule which is written into the master policy and reproduced in the employee certificates. The term surgery is broadly interpreted, and includes such procedures as the giving of blood transfusions, setting of broken bones, and even obstetrics.

So much for a description of group hospitalization and surgical expense insurance. How well does such insurance meet the needs of the public? Does it effectively answer the demand which has arisen in some quarters for provision for hospital and medical care through com-

pulsory state insurance plans or through expansion of the Social Security Act?

It is impossible to answer such major questions in the short time available, especially in view of the volumes which have already been said elsewhere. I would like, however, to leave with you one thought. The most significant aspect of group hospitalization and group medical care coverages is not their low overhead expense, although that is important, nor their marketing methods, although the dependence upon the central role of the employer is also very important. The most significant aspect of group insurance, in my opinion, is the acceptance of individual risks without evidence of insurability. Such acceptance is wholly different from the issuance of non-medical insurance in the individual policy field. Non-medical coverage in the individual policy field means the offering of coverage to individual risks on a presumption of average good health in the absence of evidence to the contrary. If there is a reason to suspect poor health, a medical examination is ordered. Non-medical coverage in the group policy field, on the other hand, means the offering of coverage to individual risks on a presumption of average good health even in the face of evidence to the contrary. By basing their underwriting techniques upon the employer-employee relation, companies writing group hospital and group medical care coverages are making insurance available to the sick who, on the test of need, have much more use for insurance coverage than persons who are individually insurable. This averaging of the poor indivdual risk with the good individual risks steals a good bit of the thunder of social security proposals. Yet as compared with the average social security proposal, perhaps other than unemployment compensation, group insurance maintains through its experience rating procedure an allocation of costs whereby the more healthy industries are not required to subsidize the less healthy industries. We think this introduces an element of control of costs which is lacking in social security.

We have, I think it fair to say, reason to be proud of accomplishments so far in the group hospitalization expense insurance field. We have a large and growing volume of coverage. Total expenses of operation are low—probably under 20% of premiums for the great majority of companies. Policy forms are singularly free from restrictions and limitations of coverage, although there may be room for improvement in providing more all-inclusive coverage. Our relations with our competitors in the non-profit plan field are generally quite good, despite some criticism of the favoritism shown such plans by legislatures in giving them a discriminatory tax-free status, and by some hospitals in entering into contracts which are open to suspicion, to say the least, of offering bargain rates to Blue Cross subscribers at the expense of the rest of the community.

The group insurance companies and the Blue Cross plans have every reason to continue their rivalry on the present friendly terms. Each of us is dedicated to the voluntary, or self-help, approach to the problem of providing better hospital care. Each of us is also dedicated to the proposition that central government direction is not in the best interests of the people. While we will always be heavily occupied with healthy

competition with one another, our main problem is to get still more people insured, so that together we can show that we are meeting the social problems of hospital care which form the excuse for government insurance proposals supported by payroll taxation. I hope, therefore, that the Blue Cross representatives can stop talking about the 27 or 28 million persons they insure under the non-profit plans, and we can stop talking about the 11 or 12 million we insure under group hospital expense insurance plans, and that in the future we each say that together we are covering upwards to 40 million people for low-cost hospitalization coverage.

In the medical and surgical care field our problems are somewhat more difficult. While the isurance companies have been almost as successful in writing group surgical insurance as they have group hospital expense insurance, total coverage including that in non-profit plans is probably no more than a third of that for hospitalization. Non-surgical medical insurance is insignificant. A much larger volume of coverage must be placed in force before we can truthfully say that we are meeting the social issues involved. But first, a number of technical problems must be solved, not the least of which arises from the practice of doctors of charging the well-to-do larger fees than those less well off. The medical profession, which does so much charity work, is accustomed to basing its charges so as to make them dependent to some extent upon the patient's ability to pay. It is obvious that the receipt of a claim payment from an insurance company temporarily increases one's ability to pay, and at the very time the doctor's bill is being rendered. No one supposes that many doctors will consciously increase their fees because of the availability of claim money, but is it possible that some will not make their customary reductions from their standard scales to those in low income brackets who are temporarily able to pay the full fee. Should this happen on any appreciable scale, group medical and surgical care coverages will have resulted in a net increase, rather than a net decrease, in the total cost of medical care—a very unfortunate result which, it might be noted, is predicted if compulsory health insurance is placed in force under government auspices.

The problem, therefore, is to determine how it is possible to set up a plan under which insurance claim payments will be accepted by doctors in full discharge of their bills, while at the same time avoiding the creation of a Frankenstein plan which may eventually control the livelihoods of the doctors. A long and important step towards a solution has recently been taken by the Rhode Island Medical Society, whose House of Delegates has adopted a surgical insurance plan which, if successful, will guarantee full discharge of doctors' bills when covered by insurance conforming to prescribed standards. At present, the guarantee extends only to the lower income brackets, but we feel confident that in time the doctors will recognize the need for guarantees in the middle income brackets as well—they are the ones who are pressing for compulsory medical insurance—if not explicitly in the plan then at least by concession in individual instances. Insurance under the Rhode Island plan may be offered by any insurance carrier licensed in the state, or by the Blue Cross or any other non-profit plan. It is of-

GROUP INSURANCE AND GROUP ANNU

All Life and Ca

(Estimated by the Life Insurance Association of America from data contribute which write group accident and health insurance. The 158 companies re

Kind of Coverage	Number of Master Policies	New Business Issued During Number of Certificates	 Number of Individuals Covered
Group Life (not including Group Debtor's Life or Wholesale Life)	4,460	1,088,000	1,067,000
Group Debtor's Life	1,240	730,000	730,000
Group Accidental Death and Dismemberment	5,360	713,000	712,000
Group Accident and Health (Weekly Indemnity)	4,910	870,000	869,000
Group Hospital Expense Employee Coverage	6,920	1,050,000	1,049,000
Dependent Coverage	4,700	400,000	985,000
Group Surgical Expense Employee Coverage	7,180	1,144,000	1,144,000
Dependent Coverage	4,020	338,000	832,000
Group Medical Expense Employee Coverage	1,410	208,000	208,000
Dependent Coverage	540	26,000	62,000
Group Annuities	160	73,000	72,000
Wholesale Life	4,260 Units	73,000 Policies	73,000

Master policies and certificates providing more than one coverage were counted
Number of dependents, when unavailable, was estimated by companies on a
of daily benefit, or maximum surgical benefit, times the estimated number of ind
For the group insurance coverages, the column "Number of Individuals" elimin
more than one certificate for a given kind of coverage issued by the same com
For group annuity coverage, the column "Number of Individuals" eliminates
counted in each of several companies jointly underwriting group contracts.
Twenty-six of the 127 contributing life insurance companies had in force some
Some of the 1945 figures have been revised since their first publication.

P ANNUITY CGE—UNITED STATES BUSINESS—1946

fe and Casualty ce Companies

contributed by 127 States and Canadian life insurance companies and by 31 other companies
mpanies received 9 he total estimated 1946 group premiums and considerations)

ed During 1946		Total In Force December 31, 1946				
ber of iduals ered	Total An of Cove	Number of Master Policies	Number of Certificates	Number of Individuals Covered	Total Amount of Coverage	Premiums and Considerations During 1946
	$2,181,00				$27,473,900,000	$325,400,000
7,000	('45—1,315,	33,320	13,390,000	13,025,000	('45—22,376,900,000)	('45—300,200,000)
0,000	236,60	7,470	5,297,000	5,297,000	583,600,000	4,800,000
	('45—87,10				('45—284,500,000)	('45—2,900,000)
	Principal				Principal sum	
2,000	1,198,10	24,300	4,546,000	4,535,000	8,517,500,000	10,000,000
	('45—782,2				('45—6,407,900,000)	('45—8,900,000)
	Weekly Inc				Weekly Indemnity	
0,000	17,20	26,820	7,008,000	7,000,000	127,200,000	114,300,000
	('45—11,00				('45—100,800,000)	('45—116,000,000)
	Daily Be				Daily Benefit	
0,000	5,70	25,730	5,800,000	5,800,000	27,7000,000	38,700,000
	('45—3,30				('45—19,900,000)	('45—35,400,000)
	Daily Be				Daily Benefit	
5,000	4,70	14,830	1,915,000	4,748,000	20,000,000	25,000,000
	('45—2,30				('45—13,900,000)	('45—20,300,000
	Max. Sur				Max. Surgical	
	Benef				Benefit	
4,000	169,00	24,600	5,392,000	5,392,000	795,000,000	27,800,000
	('45—91,1(				('45—579,100,000)	('45—24,000,000)
	Max. Sur				Max. Surgical	
	Benef				Benefit	
2,000	107,20	10,800	1,031,000	2,524,000	306,700,000	12,300,000
	('45—55,70				('45—207,400,000)	('45—8,900,000)
3,000	* * * *	2,920	490,000	490,000	* * * * * *	2,200,000
						'45—1,300,000)
2,000	* * * *	570	30,000	70,000	* * * * * *	300,000
	Annual I				Annual Income	('45—200,000)
2,000	7,10	1,790	1,678,000	1,468,000	324,700,000	346,600,000
	('45—5,50				('45—279,600,000)	('45—300,600,000)
3,000	127,40	35,100	350,000	348,000	585,400,00	9,600,000
	'45—75,90	Units	Policies		('45—489,400,000)	('45—8,400,000)

re counted for each coverage.

nies on a basis of amily unit. Total amount of coverage on dependents was based on the rate

nber of individuals

uals" eliminates dup in the column "Number of Certificates" arising when an employee holds
e same company.

eliminates duplicatthe column "Number of Certificates" arising when certificate holders are
ntracts.

Force some level or emium group life insurance.

on.

fered to all without regard to income status, although those above the income dividing line may be charged more by the doctors participating in the plan then they will receive from the insurance company as a benefit.

The Rhode Island plan, which is a development from some pioneer work done by the Wisconsin Medical Society, is important enough and or recent enough development to warrant a description of some of its details. It consists first of a statement of objectives, which are to increase the use of voluntary insurance in the state, to increase its effectiveness, to make it available at the lowest practical cost, and to do all these things while at the same time preserving the present physician-patient relationship which the great majority of the medical profession feels would be jeopardized by government intrusion. The plan itself consists of a master schedule of surgical indemnities ranging up to a maximum of $150 for an operation, together with an undertaking by the Society to secure agreement from as many physicians as possible to accept such indemnities, when tendered through insurance claim payments, for individuals whose gross annual incomes do not exceed $2,000, and for families whose gross annual incomes do not exceed $3,000. The Society also undertakes to interest all duly licensed insurance companies in underwriting the plan under policies providing at least the minimum schedule of benefits. Companies meeting such requirements and conforming to promotional standards are privileged to indicate the endoresment of the Rhode Island Medical Society in their policy forms and in their advertising and promotional literature. The companies individually maintain full control over their own premium rates, but otherwise the entire plan is under the control of the Medical Society. A Health Insurance Committee is established to oversee the plan and to modify it, if necessary, with the benefit of any advice it may wish to secure from insurance companies. Essentially, therefore, the plan is a medical society plan, rather than an insurance company plan, but it differs from the customary medical society plan organized on a nonprofit basis with an exclusive state franchise by the use of group insurance policies written by commercial insurance carriers. It is hoped the companies writing individual accident and health insurance policies will also participate.

It is much too early to know how successful the Rhode Island plan will be, for it does not go into operation until the first of the year. We hope that it will signal a much more widespread use of group insurance in the surgical care field, and will eventually be extended to the general medical care field. Other states are about to copy. Given sufficient time, the insurance business feels confident that group hospital and medical coverages will expand sufficiently in the future to meet fully the growing public demand for a better way of budgeting the high costs of modern medical care.

Medical Society and Hospital-Sponsored Plans

By J. C. Ketchum

Executive Vice President, Michigan Medical Service.

Quite a number of years ago, the hospitals, and, more recently, the medical profession, recognized the necessity of spreading the costs of health care in such a way to make available adequate care for unforeseen health emergencies without undue financial burden on the individual, and, in order to meet the need, organized non-profit, voluntary hospital and medical service pre-payment plans. Special enabling legislation was necessary and secured in many States to permit the application of the insurance principle to a service rather than a cash indemnity basis of operation. In some instances, existing non-profit or general statutes were adequate for the purpose.

Many of the medical profession and some of the hospitals sponsoring and organizing these plans may have done so as a defense against the proposed much discussed compulsory health insurance, and, in a few instances, perhaps the hospitals and physicians were motivated by a desire to make more certain of collections of billings and fees.

The numbers of plans and subscribers covered and the financial statistics are interesting and important although they alone tell only a small part of the story.

The hospital plans now claim some twenty-eight million subscribers. The medical plans, being comparatively new, now have only approximately seven million but this figure represents a rate of growth greater than the rate of hospital plans at the same age.

During the first nine months of 1947, the fifty medical plans affiliated with companion hospital plans enjoyed an increase in subscriber enrollment of 1,992,930 or 46.8%. Fourteen other plans not affiliated with hospital plans increased enrollments by 8.34% in the nine month period.

The Blue Cross Hospitalization Plans as of December 31, 1946 possessed total assets of $102,998,497.00. Their liabilities for hospital claims totaled $22,428,400.00, with unallocated contingency reserves or surplus of $24,001,722.00.

In operation during 1945 and 1946, only 12½% of income was expended for operating expenses. 81.88% was disbursed or reserved for hospital claims and the balance, 5.62%, carried to reserve for contingencies or surplus. Unfortunately, figures for the medical plans are not available on any uniform basis (they are being prepared by the Associated Medical Care Plans for publication as of December 31, 1947) although their experience is quite similar to that of the hospital plans.

Admittedly, administration of these plans has not been entirely without the usual troubles of any new endeavors and, in addition, they have had their own special problems. Considering the untried field of operation, the success of these plans may be reasonably called miraculous.

Subscriber contracts were offered without the usual underwriting limitations and requirements as to age, previous condition of health, percentage of group, classification of occupation, race, sex, etc. Premium rates charged were, in the early days, often established by whatever competition existed or by pure guess and supported by faith and hope. There were practically no ceilings on the payments to hospitals for services rendered subscribers and fee schedules for physicians' services were originally just estimates of what the profession would accept for the services rendered.

It would be impossible in the short time available to describe in detail the scope of the subscriber contracts offered by the various hospital and medical plans. Even though they are similar in the basic features, they do vary considerably in detail. Using Michigan again as an example of the typical protection, we can secure a fair idea of the nature of most plan contracts.

Two separate contracts are issued to our subscribers, one by the Michigan Hospital Service and one by Michigan Medical Service. Together they provide the following services of the participating hospitals and the physicians:

Hospital

30 days of hospital care for each period of disability. 90 additional days at 50% of the hospital's regular charges, including:

1. General nursing care.
2. Meals and special diets.
3. Use of the operating and delivery room.
4. Anesthesia by salaried hospital employee, nurse or lay anesthetist.
5. All hospital laboratory services.
6. Drugs and dressings.
7. Oxygen.
8. Physical therapy.
9. Basal metabolism examinations.
10. Emergency (accident) room service in the hospital when furnished within 24 hours after the accident—whether or not you are admitted as a bed patient.

If the subscriber should in an emergency utilize a non-participating hospital. he receives care as a bed patient with payment by the Plan under the semi-pravate contract of up to $6.50 a day for the first thirty days and $3.25 each day for the next ninety days, or for ward contract up to $5.00 a day for the first thirty days and $2.50 each day for the next ninety days, plus five times the daily room benefits for extras.

Surgical (As a bed patient)

1. Surgical services for the treatment of diseases, injuries, fractures and dislocations.
2. Diagnostic x-ray service up to $15 per year, for each person enrolled.
3. Anesthesia by a Doctor of Medicine.
4. Maternity care (childbirth) if the mother has been a member for 9 consecutive months.

5. Emergency surgical services by a doctor in the hospital within 24 hours after the accident, whether or not admitted as a bed patient.

Physicians participating by agreement with Michigan Medical Service make no extra charge if the subscriber is married and the total income of his family averages less than $2,500 a year or $2,000 if single. Rates for these contracts are $1.72 per month for the surgical and ward hospital for one person only; $4.85 for a husband, wife and all of their eligible children.

In addition to the surgical contract, Michigan Medical Service also issues a medical-surgical contract under which, for an average additional cost of approximately 25 cents per person, medical care (not surgical) by the physician is provided in hospitalized cases.

The operation of these plans would have been comparatively much simpler had they had capital funds in amounts anywhere near those of commercial insurers entering the same field.. Most of the plans at inception had contributions from medical societies or hospitals or similar donors in very modest amounts.

Michigan Medical Service, as an example, started business on $17,445.54, loaned on a surplus contribution note, of which $7,445.54 immediately went to organization expenses—mostly to the attorneys. Michigan Medical Service started business in March, 1940 and by the Fall of 1942 had achieved a remarkable success in the number of contracts issued and subscribers covered, but, at the same time, it had established an outstanding record for financial difficulties. Our financial statement at that time revealed a deficit of $405,000, not counting $143,000 of liabilities which our auditors considered, fortunately, only moral and not legal.

It was at that time that the real strength and hidden capital of the non-profit plan became apparent for even though the plan was unable to pay its agreed schedule of fees to the physicians, the subscribers were still receiving service and the assurance of future service from the plan's member physicians. In just the same way have hospitals and doctors individually and in groups underwritten other plans and guaranteed delivery of the benefits under the subscriber contracts. It is in this guarantee of service by the member hospitals and doctors, when compared to the capital and surplus of the commercial insurance carrier that the greatest structural, legal difference between service plans and insurance is evident, but there are other important fundamental distinctions. The insurance company is motivated by profit, and properly so, for either its stockholders, or, in the case of the mutual type, for its own group of selected members. Because of the desire for profit, it is necessary to impose limitations as to the quality of the risks assumed, which, in relation to premium, must always at least the average hazard or better. This results in the more hazardous risk being compelled to forego protection, to accept inadequate protection at average rates or to pay a higher rate for average protection.

The sponsors of the non-profit plans are anxious to provide protection to all who desire or need it regardless of quality of risk or hazard, without discrimination, at least in so far as possible with consideration to sound financial operation. Not all non-profit plans have been able

to operate without enforcing some strict limitations. No plan has been able so far to discard all underwriting supervision but most of the plans have advanced further toward this goal than have any of the commercial insurance carriers, and most of them have been able to do so and maintain sound financial operation.

Another important difference between the non-profit plans and commercial insurance is in the methods of operation. It is these methods, which, in spite of liberal membership requirements, comparatively wide open contracts, with attendant high claims ratios, have produced sound plans. The efficiency of these operational methods is demonstrated by the expense ratios of the plans, which in many cases are as low as 10% and some lower. These are, of course, the larger plans, but a comparison of plans to commercial companies, size for size, would reveal consistently lower operation costs. Whereas, the insurance carriers, almost without exception, are committed to the "American Agency System," involving payment of commissions to agents, the non-profit plans, almost without exception, acquire their business through the efforts of straight salaried personnel. While commissions on group contracts may be low compared to commissions on general insurance lines, the advantage to the non-profit plan is considerable. Three large groups of subscribers in the two plans in Michigan, include over 130,000 employees plus their families, totaling over 320,000 persons. The premium income from these groups alone is well over $525,000 per month. A commission rate of only 5% would be $26,250 per month, whereas we sold and continue to service the business by employees whose salaries total barely that per year.

The claims policy of the non-profit plans is decidedly different from that of the insurance carriers. During one recent year, the average of all insurance companies writing accident and health business (breakdown by lines of hospitalization and medical are not available) for the investigation and adjustment of claims, including legal expense incurred in resistance, was 22% of premiums earned. The non-profit plans do not even employ claims adjusters. Reports are accepted almost invariably without question and settled at full face value. For example, my instruction from the Board of Directors of Michigan Medical Service are to pay every claim that can possibly be justified under our contracts. We often hear the members of our Board of Directors boasting of the month's total paid for claims and but seldom of our income for premiums.

There are other savings in overhead items which produce these low expense ratios which, incidentally, could be availed of by the companies, but probably will not be, such as the fact that numbers of salaried administrative personnel are kept at the lowest compatible with efficient administration, most of the officers and the Board of Directors of the plans donating their services as in the public interest.

It is not my intention to be critical of the companies in pointing out these facts but they must be considered in any evaluation of the non-profit basis. The ordinary insured under a hospital or medical policy is concerned with the total cost to him of the care he will receive and the cost of that care includes all such items as commissions to agents, claim costs, advertising, executive pay-rolls and all the other expenses

of operation. In the final analysis of his health care insurance cost, he will measure by the number of pennies returned to him in the form of services or paid bills.

It is obvious that it is my position that at the present time only the non-profit hospital and medically sponsored prepayment plans hold any real promise of offering an adequate answer to this problem. I should make it clear that at the same time it is my belief that commercial insurance companies could, if they were willing, do as much. Considerable time and effort has been expended in the last few years in conferences and discussions between representatives of the medical profession and representatives of some of the commercial insurance carriers. It is evident that a number of the commercial carriers have a real desire to do everything possible, even at some considerable financial risk, to perform adequately in the hospitalization and medical care field. Unfortunately, it is well known to most persons having experience in attempting to gain complete co-operation between various insurance companies that success is usually thwarted by the unwillingness, or perhaps inability, of a few to co-operate.

The suggestion has been advanced that a pooling of effort in underwriting hospitalization and medical insurance, the waiver of commissions, or at least payment of commission only on a minimum scaled basis for the production of such business, and a uniform liberalized claims policy with all carriers operating in the field subject to control by the pool, would produce a result as satisfactory as that now produced by the non-profit plans, or at least adequate for the purpose.

There are many obstacles to the successful completion of such an arrangement beside the unwillingness of some carriers to co-operate. One of the major obstacles is probably the Federal anti-trust statutes which would probably prohibit any agreement as to rates.

Assuming, however, that some such arrangement might be successfully carried out, it is my belief that the medical profession and the hospitals would be only too glad to surrender their activities to the insurance carriers.

To anyone not having direct personal knowledge of the various phases of these various health care programs, it must be a rather confusing situation, non-profit hospital and medically sponsored plans and plans offered by the commercial insurance carriers and the proposals for governmental compulsory health insurance being so much alike in so many respects, but so different in so many other ways.

It seems to me that it is logical and certainly reasonable that the voluntary non-profit plans, which have demonstrated by numbers and rapidity of growth and flexibility of method, a real desire to serve, supplemented by the commercial insurance companies in their efforts as far as they are able and willing to go, should be given every assistance and encouragement in completion of this job before the people of this country are subjected to a radical, compulsory and probably irrevocable experiment in the distribution of the cost of medical care by the Government.

Non-Governmental Medical Care Programs

By W. R. Williamson,

President and Senior Actuary, The Wyatt Company

I should like to begin by saying that my qualifications for speaking on this program are:

(a) An academic aloofness to the pressure for new business and expansion of any program.

(b) An instinctive impulse to deflate the inflated claim.

(c) A strong belief that "we do things differently" in America.

(d) A desire to treat our citizens as responsible, mature individuals.

Although I should like to see, now that we have started, a low universal floor-of-protection for Old Age Survivors and Extended Disability arranged by the federal government on a near-subsistence basis, to stimulate personal and employer supplementary provisions, I suspect that part of my reason is the good start already made in personal thrift and insurance programs and in mass programs largely arranged by employers. I very much want to *increase* the sense of personal accountability. I wholeheartedly agree with young Father Nunez, whom I recently met in Costa Rica, that human personality, freedom of choice, freedom from undue domination by a government, a church, an employer or a union, are goods to be conserved and not carelessly lost. When we add governmetal direction of services which are personal, I like to feel that such imposition is clearly the agreement of the electorate and not the decision of a narrow protectorate even when it is "for the good of the citizens". I have not been convinced that the extensive minutiæ of medical care, the medicines, the usually widely scattered doctors' visits, the cleaning of teeth, the brief visits to the hospital, the new glasses, the nurses' visits require a complete reorganization of our economy so that a federal executive will coordinate and in part replace the far-flung services now in operation.

Personal responsibility is served by the non-governmental projects presented by the three previous speakers. Even in thinking of employer plans, I like to regard them as expressing the wishes of the group of employees who allocate a part of their joint incomes to serve the basic common needs of all. For a working rule-of-thumb I have said that "insurance is an orderly, informed method of sharing, by the use of which men, who accept a personal responsibility for the meeting of certain contingent, presumptive personal needs, through the good will and team work of mutual cooperation, provide benefits upon the incidence of the contingency and upon the emergence of such ensuing presumptive needs". I'm not insistent upon calling this *insurance* either. I prefer "cooperative budgeting". But I do want to hammer home my belief that neither "insurance" nor "budgeting" creates wealth or services or facilities. Insofar as projects carry a subsidy, they seem

that much less insurance to me. When Beveridge says "the citizen gets a shilling's worth of benefits for thruppence", I shudder from the boots up. When the "law of averages" is quoted as making accrued liabilities disappear, or when anyone says that insurance reduces costs, I object.

I carry a lot of insurance. It means I have less to spend currently. Insurance, like the community chest, collects income that it would be pleasant to spend elsewhere, and marshalls it to the support of an earmarked purpose. These programs that are being discussed today deal with a personal responsibility much more important than the maintenance of my favorite luxuries. Insurance bands together a lot of people with considerably differing liabilities as to risk. In most years an insured person does not collect benefits. In most years that I have carried insurance, I have put in an outlay greater than was currently required so as to smooth out my expenditures. Insurance builds upon "I can and I will" rather than "I can't and I won't".

"Budgeting the Costs of Illness" by H. Ladd Plumuley is the first study in a series on individual and collective security released by the National Industrial Conference Board. It lists six facilities:

1. Employee Mutual Benefit Associations
2. Trade Union Plans
3. Blue Cross Plans
4. Group Insurance (Insurance Companies)
5. Prepayment Medical Care Plans
6. Individual Accident and Health Insurance Policies.

Of these the Blue Cross plans seem to cover the most persons. These are all gathered together as representing the voluntary approach in America as contrasted with what is apt to be called "government compulsion and regimentation". I am inclined to add to that series of six the further voluntary budgeting techniques of "money in the bank", and all the traditional savings methods of "preparing for a rainy day".

It seems to me that much of the agonizing discussion of the actual impact of medical costs has been exaggerated The aggregate figures quoted (probably subject to a considerable margin of error) seem to make the national medical bill run less than the bill for alcoholic beverages and not much more than the bill for tobacco and cosmetics put together. I think more ought to be budgeted for medical care. I for instance, should like a periodic full medical examination. I am not so much held back from getting these services by fear of the costs as because it takes my time and that of the doctor. There has to be a meeting of minds and availability of doctors to suit my time schedule.

I hope these programs will give 100 per cent service—but we are all human and there are limitations and restrictions to put up against the value of budgeting. I am going to list the limitations first.

Limitations

1. *Jurisdictional Subdivision*: Health is a unit but I find separate budgeting provisions for hospitalization, surgical fees, doctor's bills, specialists' services, dentists, oculists, drugs, etc. I have a broad package coverage for my car and for my house which reduces the number of separate premium payments and the extent of my uncovered needs. I think comprehensive covers cut overhead too.

2. *Gaps*: Dr. Louis Reed in his recent report on Blue Cross and the Medical Service Plans gives a good deal of space to the gaps. So far there has been mighty little suggestion of bringing into these programs payments to nurses, dentists, or expenditures for pharmaceutical supplies. The most serious gap is that the catastrophic burden—where the need for budgeting is greatest—is the least apt to be dealt with. Here, the $50.00 deductible automobile policy with very high limits suggests emulation.

3. *Underwriting Exclusions*: Because highly substandard lives particularly the aged, those most in need of care, have been excluded, we have two limitations.

(a) The plan may initially produce a favorable selection which will later wear off—thus starting with a misleading appearance of low costs.

(b) The plan leaves out of the program the very situation for which the structure has been devised.

I have belonged to a voluntary medical care organization for many years. During this period, I paid the one fairly sizable medical bill from my own pocket because the service was clearly desirable but it had been excluded from the "group treatment" (and the bill was only *fairly* sizable at that).

4. *Actuarial Base*: is necessarily a bit sketchy. Until the insurance structure shapes up more clearly, the following factors are not clearly known.

(a) Whether there is a definite early selection, its extent, and at what rate it wears off.

(b) Whether an aging of the insured group occurs, such as has occurred in group life and whether the problems of "group conversion" and "coverage of pensioners" may be similar.

(c) Whether there is a tendency to *use* (where use is *desirable* but does not occur among the unprotected) or to abuse (the hypochondriac or the member who is merely "getting maximum value out of the plan").

(d) Extent of "accrued needs" and the rate at which they are cared for.

(e) Dependable frequency distribution of superstandard, standard and various degrees of substandard risks by age, sex, marital status, occupation, etc.

(f) Frequency distribution of disability durations.

(g) Scientific effectiveness or rehabilitation

(h) Persistence of membership.

(i) Administrative costs and allocation.

(j) Reserve accumulation theory and practice.

(k) Special problems of very rapid growth.

(l) Family structure and practical sharing between those with and those without dependents.

(m) Premium base as dollars, as per cent of wage, etc.

These all represent limitations to our knowledge.

5. *Lack of Expected Subsidy to Low Wage Groups*: The social insurance vogue of charging premiums as a percent of wage is probably

explained by the bargain to the low wage groups and the failure to indicate that this charge impinges against the highest paid group. Thus, to express annual medical costs of $100 against a $2,500 *average* annual income as 4 per cent is to avoid such awkward ratios as 20 per cent of a $500 wage, 10 per cent of a $1,000 wage and 1 per cent of a $10,000 salary. But when uniform dollar charges are made, there is a loss of the effectiveness of "an insurance help" to the much-stressed "medically indigent". A similar reduction of subsidy to the low-wage, large-family man will be present if dependents are separately charged for, rather than 'shared" among bachelors and spinsters.

6. *Emphasis on Low Costs Through "Non-Profit Limitation-on-Expense"*: Services are worth paying for. The occasional "horror-at-profits" attitude seems to me to be a definite danger in these plans. Professional services of all sorts should be planned on at an adequate level. Paying adequately for skilled management and for professional guidance is most important. There is "pound-foolishness".

7. *Debate on Relative Merits of Service or Indemnity for Service*: Either horn of the dilemma carries its limitations. The use of service implies a control over services or a sure knowledge of their costs which are lacking. (Our fear of socialized medicine stems from the knowledge that so extreme a control by government places too much power in too few hands). As Louis Reed outlines in his recent book the cash indemnity may not fully reimburse the patient. Since charges made must eventually be those necessary in a changing world, it is important to learn the facts about the business, and to make the insurance or budgeting service dependable.

8. *Limits to the Credibility of Current Experience*: The recent tremendous changes in employment and unemployment, in aggregate and per capita wages, in the purchasing power of the dollar, make too trusting reference to "the lessons of experience" rather treacherous. Per capita wages have more than doubled in the last dozen years. There has been a marked shortage of medical services to civilians during the war. Earnings in different portions of the economy are shifting at different rates. It is hard to tell whether more medical facilities will be furnished at a great increase in unit cost. It sometimes seems that it is only skilled manual workers who are to be recompensed and not professional men. A review of slightly worn statistics of the late 20's and early 30's exhibits evidence of a very different world. Records in dollars, in wage percentages, in benefits, in times of very limited facilities must be read with understanding.

9. *Political Attitudes*: The most marked potential limitation in these programs lies in the attitude of debate which has gathered around this general subject. The strategy of proponents seems at times to be that of the poker game. In fact, we are very ignorant of the basic facts of health and disease. We can only legitimately progress through informed and searching analysis.

The statements of limitations represent my recognition as an actuary

that we need facts, rather than impressions. So we look dubiously at the glowing record of tripled membership in a few short years and emphasize the long way yet to go to complete protection, the difficulty of evaluation of accomplishment and the fact that every institution today is being reexamined.

We turn to the elements of strength with definite pleasure.

Strengths

1. The voluntary programs seem to be an evolutionary, a spontaneous development—not a forced one. Individuals join, one by one. The demand for protection comes from "the grass roots". It is another of an interesting series of coverages which include Ordinary Life, Industrial Life, Group Life Insurance, Workmen's Compensation, Automobile Liability, Retirement Plans, and Group Weekly Disability Benefits. It has not been imposed—it has evolved.

2. Facilities for sound administration have more of a chance to keep pace with the requirements, than is possible when a backward nation adopts a medical care plan before it possesses the facilities to make it work. This possession of facilities avoids the protests over failing to live up to premature promises. "Let us pass a law" is bad advice, when the laws do not represent broad public opinion.

3. The plans stress personal recognition of responsibilities and the development of sound facilities to meet them. They avoid the negative and demoralizing pretense that the citizen "is unable to see his duty and to meet it". They give the potential member credit for basic competence and reliability and the wish to care for his responsibilities. These plans can build character and self-reliance.

4. The approach avoids—or should avoid—the misleading attitude of Sir William Beveridge that "the citizen gets a shilling's worth of benefits for thruppence". (Sir William's approach is sounder when he says that all are covered and all pay). If there is an employer contribution—and there well may be—the more constructive explanation is that of a wage increase allotted to budgeting for health. This is personal group budgeting. It is Scotch. It is "austere". Spreading costs over time and many contributors increases the chances of meeting budget priorities soundly. I like to think of insurance as informed budgeting, biting a bit into my funds otherwise available for luxuries. To get nearly 50,000,000 persons budgeting for this purpose is an achievement to be proud of.

5. Payroll deduction for the payment of taxes, community chest contributions and insurance premiums is a most effective device. Taxes and death come first. To add provision for better health is a wise extension. By such methods we are more apt to stay out of the poor house and to enjoy a more productive life.

6. Competition between the plans stimulates comparison of benefits, greater appreciation of benefits and soundness of program. In the experience of European programs where there was no competition, where benefits were set by edict, where beneficiaries expected to get and did

get more and more benefits, we have had an unhealthy national picture. It's a *strength* of United States development that programs have been sponsored by insurance companies, by mutual benefit societies, by unions, by employers, by the hospitals, by the doctors.

Conclusion:

So, balancing the admitted limitations against the valid accomplishments, we have a lusty infant industry as American as Vermont maple syrup or Southern cornpone. We can help the evolution of these programs by recognizing their immaturity and by expecting them to grow step by step, replacing the current youthful exuberance by an attitude of mature responsibility. They are positive in their values, hopeful in their outlook. May they, understanding their limitations, wisely grow within them.

Discussion

By Elizabeth W. Wilson, Ph.D., Cambridge, Massachusetts

I have been asked to discuss the first and last papers in the foregoing interesting discussion.

The figures Dr. Dickinson has quoted are extremely thought-provoking. He has compared the increase of medical costs since 1935-9, with the increase of expenditures for such luxury items as recreation, jewelry, alcoholic beverages and tobacco—or is tobacco a necessity? Although payments made for food, clothing and household operation are from 3 to 9 times as large as those for medical purposes, and are, therefore, somewhat more liable to error in estimation, their indispensable character makes them more analogous to medical expenditures than are the items cited by Dr. Dickinson.

The 1946 index for medical care was only 211, that for food was 278, clothing and accessories, 283 and household operation, 207. That is, medical costs have risen almost as slowly as the least inflated category of necessary expenses.

What is the reason for this? Does it prove that there is not the unfilled need for medical services about which the proponents of compulsory insurance rave? Or wasn't the personnel available to give the desired services? Was it due to the fact that doctors and hospitals did not increase their charges in consonance with the inflationary trend? I should like to know.

Turning now to the question of medical payments as a proportion of individual incomes, we find an inverse correlation with the economic cycle, the variation being about a mean of approximately 4%. This was true not only on the upswing, 1940-6, but on the downswing, from 1929-32. It is what we should expect in the case of a necessity, with a small coefficient of elasticity of demand.

The speaker has assumed that this was caused by the variation in amounts paid to doctors and hospitals. That was undoubtedly true when we were entering the depression, but I question whether there would be much fluctuation of these ratios if the amounts paid by insurance agencies to doctors and hospitals were allocated to "physicians" and "hospitals" instead of to "Payments to group hospital and health associations." Doctors' payments decreased from 1.15% in 1940 to .90% in 1945, and hospital payments from .65% to .54%. Payments by the Blue Cross could easily account for the latter discrepancy.

However, Dr. Dickinson has emphasized a very important fact, to wit—the average American in normal times pays about 4% of his income for medical care. Remember this figure when you see the probable cost of a compulsory health insurance system being estimated at anywhere from 6-9% of the covered payroll.

Mr. Williamson, in his most interesting paper, has made no attempt to evaluate the importance of what he calls "the elements of strength and weakness in voluntary plans."

I presume that everyone here will be willing to admit that the insurance—or budgeting—of certain types of medical costs is desirable. Many of the elements of weakness listed by the previous speaker are those characteristic of any new type of insurance.

For instance, the actuarial bases are "sketchy". We do not know the effects of initial selection, malingering, distribution of types of insured, persistence of membership, or administration costs. It is also true that our ignorance with regard to some of these factors is accentuated by what Mr. Williamson calls "the limits to credibility of current experience." Not only the economic factors mentioned, but medical conditions are changing rapidly. The underwriters of any new type of insurance would labor under similar disadvantages.

Again, the speaker bewails the uneconomic administration of individual coverages, and advocates the use of package plans. There has been a trend toward this in certain places, where hospital and surgical coverage is included in a single certificate. On the other hand, policies covering a single type of risk are more flexible, and Americans resent standardization.

It has been suggested that nurses' and dentists' services should be included. This would be feasible in certain limited areas, but the lack of available personnel would make the fulfillment of such contracts impossible in many places.

I am definitely skeptical about the wisdom of an all-inclusive pharmaceutical benefit, although it might be practical for expensive, rarely-used drugs. Even a cursory survey of the rapidly increasing cost of such coverage in both Britain and New Zealand would give an experienced underwriter pause. Moreover, its administration is apt to create friction between the doctors and insurance authorities on the question of the types of drugs prescribed. Also, such insurance may be actually detrimental to the health of the insured population. All of you will remember the famous statement of Sir Arthur Greenwood, quondam British Minister of Health, to the effect that after the inauguration of the National Health Insurance system, the British became "a nation of medicine drinkers."

Mr. Williamson criticizes the limitations in coverage. Isn't it wise in issuing a new type of insurance to limit the risks assumed and the types of persons insured until experience indicates what an equitable premium would be? Fifty years ago, when the Fidelity and Casualty Company of New York issued the first health insurance policy, it covered only eight diseases, and, as one actuary remark, was limited to those persons who would never have those diseases. I shall not be surprised to see a gradual lifting of the limitations and inclusion of older and older persons.

In short, five out of the nine "elements of weakness" are characteristic of the newness of such plans, and like Youth, will inevitably be outgrown.

The variation of the premium with the size of the family and its expression as an absolute amount rather than as a part of the wage, is, to my mind, a source of strength, rather than an element of weakness. This practice charges each insured person for the benefits received by the average person in his class, which is the essence of true in-

surance. Of course, it does not have the buyer appeal of the slogan 9d. worth for 4d., which Lloyd George used to sell the National Health Insurance system to the British people 36 years ago, but it tells the truth. There is no reason why in cases of need it should not be supplemented by public assistance. But the practice of adjusting the premium to the cost, separates the insurance element from charity, a consummation devoutly to be desired.

It is undoubtedly misleading to overemphasize the low-cost phase of this insurance. Hospital costs are high and increasing. Doctors should be entitled to adequate remuneration because of their long period of preparation and their heavy expenses. In many cases, they have taken less than the amount promised them by the underwriting agency, in order to keep plans solvent. However, it does not seem equitable to insist, that physicians should be willing to have their scale of rates for all patients set far in advance unless and until all other workers have their wages predetermined.

This matter of remuneration of doctors has been the source of much of the trouble in health insurance. Before 1930, the German insurance authorities successively decreased the compensation paid physicians, and there was a series of doctor strikes. The inauguration of the New Zealand system had to be delayed two years because the doctors were unwilling to treat well-to-do patients for as little as they charged the poor ones. Wihin the month, the doctors connected with the compulsory health insurance system for the San Francisco city employees struck on this same issue.

However, an adjustment must be made between the doctors and the insurance authorities. Until it is, any health insurance system is threatened by a definite element of weakness. Insurance authorities must realize that the cooperation of medical men is indispensable, but doctors should appreciate the fact that the success of any insurance scheme can be made more certain by the advice of experienced underwriters.

Six "elements of strength" are listed. They could be epitomized by saying "Since the system is voluntary, it avoids the pitfalls characteristic of a compulsory system. "Because of the voluntary—and competitive—character, there is an incentive for insurance authorities to keep administrative costs and personnel and claim validations at a minimum, and the quality of the service high. Compare this with conditions under compulsory systems. In Britain, administrative costs have been around 15%; malingering is rife in all countries. Read the 1946 Senate Committee hearings, particularly the testimony by Doctors Oechsner and Baehr, to find out about the quality of medical service given in compulsory health insurance countries. Administration requires a large staff—in Britain it has been 1 for every 100 insured. This may easily become a political danger—by degenerating into a bureaucracy.

Thus, if we are to distribute the costs of disability by insurance, and the system must be either voluntary or compulsory, let us choose the kind which will have more efficient administration, lower costs, better medical service and no bureaucracy. After all, the voluntary type is the American way.

Discussion

By Frank Lang, Manager, Department of Research, Association of Casualty & Surety Companies

As I sat here listening to my four colleagues giving an account of the present state of affairs in the field of medical care insurance, I couldn't help but wonder what sort of report they would submit were they addressing this group ten years hence—December 1957 instead of December 1947.

I think we are all agreed, but I will say it once again, though with full awareness of the fact that in so doing I lay myself open to the charge of tedious repetition of an old refrain, that "Today, health insurance is at the crossroads." Tomorrow it will have moved on—and by 1957 it will be still further along the road. We hope it will be along the Highway of Voluntary Health Insurance, and not the Byway of Compulsory Government Insurance. I use the word "byway" advisedly—in the sense of a secondary or detour route, which will be necessary only if the main route becomes impassable for lack of proper maintenance.

Our speakers have reported on the present state of repair of three of the lanes in the Highway of Voluntary Insurance:

Frank Dickinson has told about consumer expenditures for medical care and the relatively small portion going to medical care cost.

Al Pike has described what private group insurance has accomplished. He reports growth in all three divisions—hospital expense, surgical expense, and general medical expense insurance—10-½ million individuals being covered under group hospital, 8 million under group surgical, and ½ million under group medical.

Mr. Ketchum has given a picture of the job that is being done through medical society and hospital-sponsored plans. Twenty-eight million hospital subscribers is a large number in any man's language. A few years ago it would have been thought fantastic. Such an achievement points an encouraging pattern for the future.

And finally Bill Williamson has shown wherein lie the strengths and limitations of voluntary plans.

In addition to the three types of medical care protection that we have heard discussed this afternoon, namely coverage through commercial group insurance and through medical society and hospital-sponsored plans, there are a number of other voluntary methods for securing this type of protection. Lack of time prohibits a detailed discussion of each, but for the sake of completeness I think it might be well in passing to list them. They include (1) individual insurance which is purchased by the individual from the commercial insurance company; ((2) a variety of plans best grouped under the common heading, prepayment medical care organization—among them private group clinic or physician-managed plans, industrial employer-employee plans, govern-

mental plans established by the various government agencies, consumer-sponsored plans which have grown out of the desire of a group of persons to budget the cost of illness, the FHA plan, and the bituminous mine industry plan; and (3) a final category designated as university health plans. An estimate made within the past month by the Research Subcommittee of the Conference Committee on Health Insurance of which I happen to be a member, gives the following totals for the number of persons covered under the various voluntary medical care plans: Hospital expense 41,323,000; surgical expense 17,530,000; medical expense 6,465,000.

We must not forget either that entirely apart from these medical care plans, there is the older type of indemnity protection against loss of income in case of accident or sickness. This, after all, is the basic protection provided by insurance. All the other coverages discussed this afternoon are an outgrowth of this fundamental type. Under this heading there are six generally recognized covers: (1) group insurance, (2) individual insurance, (3) fraternal benefit societies, (4) paid sick leave, (5) employ mutual benefit associations, and (6) union plans. The total number of persons protected through these channels is estimated at 26,823,000.

We know what is available. Do we know, though, what is wanted? Specifically, what does public sentiment demand? During the past few years the average American has become an extremely health-conscious individual. He has learned that on an average day 7,000,000 persons in the United States are disabled by sickness or injury so that they are unable to go about their ordinary business—school, work at home, or work on the job. He has learned too that this disability has resulted in an annual earnings loss for the nation of some 3-4 billion—to say nothing of 1.5-3.3 million man-years of working time lost in an ordinary year.

Through the use of public opinion polls, attempts have been made to find out just how the average American wishes to take care of this problem. Today, there is hardly a polling organization in the country—either national, regional, or local—that has not at some time or other undertaken the task of determining public opinion with regards to medical care. Findings show a surprising degree of consistency regarding the answers to some of the questions, but marked variation in answers to others. All polls agree that a large majority of the American public feels that most people do not get enough medical care and that something should be done to improve the situation. As early as July, 1943, only a month after the appearance of the Wagner-Murray-Dingell bill, the Opinion Research Center of Princeton, New Jersey asked the question, "Do you think anything might be done to make it easier for people to pay doctors' or hospital bills?" The reply was an emphatic affirmative as shown by the following percentages: 63% yes, 11% no, 26% no opinion. The same question asked during 1945 brought very similar results. A year later the National Opinion Research Center of Denver found an even larger proportion of people—

82%—feeling that "something should be done to make it easier for people to secure medical care when they need it."

Another issue on which there is apparent agreement concerns methods of payment. Here findings reveal a marked preference for prepayment. In answer to their question as to whether the public preferred a pay-in-advance or pay-when-you-are-sick plan the same three polls referred to above found between 45% and 64% of those queried favoring the prepayment method.

No such unanimity of sentiment, however, exists among respondents with regard to the medium through which this care should be provided or the agency through which it should be administered. Three of the major national polls report extremely diverse findings as to the proportion favoring federal or state administration as opposed to administration by doctors, private agencies, or local organizations. When asked about the choice of plans, the percentage of people claiming to favor an extension of social security to include health insurance varied from as much as 37% to 70%. In addition to polls by these three national polling organizations, the question of medical care has been explored, as far as I am aware, by regional surveys in Washington, Iowa, California, and Michigan; by three in Minnesota; and two in Pennsylvania. All of these have tried to measure public opinion with regard to a government-operated medical care program and all have shown wide variation ranging from 38% to 83% in favor of such a plan. This divergence of opinion apparently is not due to incorrect sampling but rather may be traced to differences in the wording of questions used by the different pollers. These studies, incidentally, provide an excellent example of the difficulties that may arise and of the necessity for formulating questions with extreme care. For example, findings show that more opposition is expressed when a government-sponsored plan is described as "socialized medicine", "government-controlled medicine", "compulsory health insurance" or "a new tax for paying people's doctor bills". On the other hand, more approval is indicated when the same plan is represented as "insurance for which the worker helps pay", " a means of providing low cost medical care", "a plan supported by the president" or "a method similar to systems already in operation".

The importance to this audience here is that there exists a fluidity of public opinion as related to a national program of health insurance which in turn is caused by the fact that people have not yet made up their minds on the issue and are easily swayed by the many verbal stereotypes which usually accompany any discussion of this controversial issue.

Small wonder the average American is confused. On one side he finds himself confronted with a multiplicity of proposals, each claiming to offer the solution to his problem by providing complete health insurance and medical care. On the other side he finds himself only too often misled and unable to obtain the protection to which he believes himself entitled. This is a situation that needs correction and one that

everyone in any way connected with insurance should feel an obligation to rectify. This is particularly true for those among us connected with insurance education. For it needs a public relations program on a broad educational level designed to show the man in the street just what is available under the various plans—a program which admits frankly the strength and limitations of each. Only an honest public relations campaign, based upon indisputable data can accomplish the purpose.

There may be differences in opinion as to method, but they are insignificant in the face of the overwhelming mandate from the public of this country to go ahead and to do something about medical care.

Discussion

By Professor Erwin A. Gaumnitz, University of Wisconsin

Mr. Chairman, Ladies and Gentlemen: I think it would probably be worth my time and your time to ask one or two questions. Whether I can give the answers or not is something else, because you may not agree with me. I would like merely to ask the questions first. What, presumably is the objective that the nation should seek to attain with respect to this particular topic? That is, are we interested in more medical and hospital service, or are we interested in a plan whereby the credit losses of the medical profession may be reduced, or whether or not the hospital facilities physically may be expanded, or the medical training and services expanded, or whether or not we should seek a more even distribution of both the physical hospital facilities and the medical services?

The figures that Dr. Dickinson presented, I noticed, have been interpreted in part, not necessarily by Dr. Dickinson, but I thought I caught a little bit of an interpretation from one of the other speakers, that the figures in respect to the percentage of the total family budget, going to medical services and hospital expenses related to costs. That word "costs," is probably misused, in the medical and especially insurance field. I think actually, these figures that Dr. Dickinson has presented show nothing at all about costs one way or another. If by costs one means the total cash outlay, that is one thing. I think that is what the figures show. The amount of money in dollars converted into percentages with respect to budget levels is purely an outlay figure. It does not mean costs, I don't think, especially in the sense of a change of price levels for medical services. A change in the price level of medical services, and a change in the proportion of a family budget spent for medical services are two different concepts, and neither is the same as a change in the total dollar volume of cash outlay for medical services.

Some of the other figures that were quoted, I think probably come closer to being "price level" changes for the particular category referred to.

I know Dr. Dickinson has some figures that relate to the distribution of medical services. One of the difficulties of figures of any sort that are put into percentages on a broad basis, is that nothing is shown concerning deviations from the averages. The important point as I understand it is not that medical services are not available on the average, but that in certain communities they are not available at all.

Furthermore, the problem is that some people in some income brackets cannot buy medical service and cannot avail themselves of hospital conveniences. I remember, some years ago, a group of us had a research study under way during the depression years and we had some rather detailed figures from quite a few families in certain income levels. We studied the dollar outlay that these families had made for

various segments of their budgets, and we noticed in particular the change in the amount and in the proportion for medical services. We found that an increase in income, when the doctors as a matter of fact were relatively unemployed, did not necessarily indicate that the people who enjoyed the higher income had better or more medical service. I think that our problem is more rather than better, medical and hospital service.

Better quality can come after more people are served. One of the features of the so-called free enterprise system under which we operate, is that a person who has a given income, has freedom of choice with respect to the way in which he spends his income. The mere fact he has more income, better M.D.'s available and that they have better physical facilities with which to operate, does not mean we will witness necessarily, a more rational expenditure on the part of those people for medical services. The conclusion is, that we are free to dissipate in any way we wish. The study seems to indicate, that as one's income increases faster than his ethical considerations of how he should spend it improve, according to what some person may have as a standard of improvement, we get some rather amusing conclusions.

An increase in income at the same time we have an improvement in medical facilities, may be associated with the consumption of more and better wine, which may of course, have some effect on health. Whatever the effect is, I don't know. Nevertheless, conclusions are possible which may not be intended.

If it is our objective here in the United States to have more and better medical service, I am not personally convinced in my own mind, that insurance will necessarily solve that problem. I think, as Mr. Williamson said, insurance will come closer to solving the problem of budgeting one's medical expenditures. I think furthermore, the added emphasis on cost, wherein costs are considered as such and not compared with the particular service the person is getting in exchange for his premium, will not necessarily lead to good thinking concerning the direction that insurance should move.

For example, suppose we have two companies competing on a cost basis. Either they can compete by turning out a quality product and having their salesmen emphasize the quality, or they can compete by thinning the quality of the product and having their salesmen compete on a cost basis. It is that latter type of development if over-emphasized, that will do more harm to the insurance business and will certainly not further the free enterprise system, and will probably in the long run do more to direct our nation into a scheme of broadened and deepened social security of a too paternalistic type than anything else.

The type of policy we find advertised on the inside of match covers and that we in Wisconsin can hear on the radio, although it does not originate in our state, I understand, should be abolished. I do not necessarily mean by law, because I am by nature opposed to laws in general, but the abolition should be primarily by competition.

I saw an interesting policy recently, printed on some of the highest quality paper I have seen since the war, and the bright colors were there also. A conspicuous ten-thousand dollar amount appeared at the top. In reading this policy, I noticed that there was a rather significant monthly disability item promised in the policy

But, there was a limitation of two months in the contract. The ten thousand dollars promised was for death if the death occurred in a certain manner which comes infrequently statistically. It is an extreme case, of course, but it illustrates the general idea.

Whether a company is of the non-profit or profit type, it seems to me, does not matter. There seems to have been quite a bit of emphasis this afternoon on the sharp differences between the two plans, however.

I would like to emphasize the things they have in common, and to suggest that if the sharpness or the distinction between the two plans is emphasized, I doubt very much that the future is so rosy. I think we should look rather at what we intend to achieve, and what is the best means of achieving it. Then if we wish to have our various types of plans of organization under the free enterprise system, proceed to do so, as long as legally they are permitted to operate on essentially the same footing. The difficulty, in many instances, lies in the reasoning of the people on the inside in both the private companies and non-profit groups. An enlightened leadership is needed in both groups if the general welfare is to be promoted.

The practice seemes to have been to lower costs by inserting limitations in the contract which is of course, desirable, in some cases. If there is a limitation with respect to operating room costs, and a limitation with the respect to many other coverages, probably the maximum one could benefit from some of the contracts, let us say, $250.

Why get so excited about some broad scheme that will give a person $250? My feeling, rather is that if there is a need for good budgeting, and if there is anything at all to the general principles of insurance, I would say we ought to pay more attention here in the United States to an analysis of the needs, and an ascertainment of ways and means of taking care of the extreme loss. Minor expenses can be handled on more or less a current expense or almost on a depreciation basis. The human system has quite a bit of similarity to a machine. We don't get too excited if we lose a hub cap here and there, and we ought not get too excited about that same type of situation with respect to ourselves as human beings.

On the other hand, a person who is disabled and hospitalized and requires medical attention for a relatively long period of time, does demand a certain type of service, which he will not get out of many of the contracts that are sold today.

A LOOK AHEAD

by

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Historical Survey

Of the large basic courses in the field of business, as reflected by our institutions of higher learning, insurance has been about the latest newcomer. Judging from the last over-all survey (1940, by David McCahan and Anna M. Kelly, under the auspices of the American College of Life Underwriters), the early progress was painfully slow. During the decade from 1904 to 1915, only 10 survey courses were established in American universities and colleges; and only 11 specialized courses, 5 in life insurance, 4 in property insurance, 1 in casualty insurance, and 1 in property and casualty insurance combined. By 1920 the survey courses had increased to 17, the special courses in life insurance to 18, those in property insurance to 15, in casualty insurance to 3, in property and casualty insurance combined to 4, and in life insurance salesmanship to a single course.

Under such circumstances it was futile to attempt a national organization of university teachers of insurance. Moreover, the understanding of insurance by faculties already entrenched in our business schools of higher learning was not too flattering, and to ever so many the subject was not too welcome. Insurance as a career calling was often frowned upon in academic circles and its legitimacy as an integral part of the business curriculum seemed dubious. In other words, the subject was permitted and tolerated, but that was about all.

During the fifteen years following 1920, a decided impetus was given to insurance instruction in our institutions of higher learning. By 1935 survey courses in insurance had increased to 95, a 5 6/10-fold increase since 1920. Special courses in life insurance increased to 64, a 3½-fold increase; special courses in property insurance to 31, a doubling; special courses in casualty insurance to 15, a 5-fold increase; special courses in property and casualty insurance combined to 18, a 4½-fold increase; and life insurance salesmanship courses to 6, a 6-fold increase. Along with this increase in the number of courses, there also developd a much better understanding of insurance service to the community, and of the reasonableness of including insurance as an integral part of a business school's curriculum. Increasingly it was recognized that as a collegiate subject the study of insurance combines the virtues of mental discipline, a proper sense of the seriousness of life, a proper concept of community service, and information highly useful in living, quite as much as other business subjects comprising the collegiate curriculum

and in some instances much more so. Risk and risk bearing, in its many relations to both human life and property values—and economics was defined by its founder as the science of wealth—also was recognized increasingly as a separate grand division of the whole subject of economics, as distinctive in its way as are production, exchange, distribution and consumption. With the better understanding of those concepts there also came about a greater willingness to recognize specialized courses in each of the three main divisions of insurance—life, property and casualty insurance—to prepare students for a career in the calling, just as is done in other business branches, such as accounting, finance, transportation, industry, etc.

With the increase in the number of insurance courses and the number of teachers by the early 30's, the time was ripe to undertake the organization of those teachers into a national association. Quite a number of educators had been looking forward to that day. Accordingly, fifteen years ago—in 1933—a new national association of teachers was brought into official being and was christened "The American Association of University Teachers of Insurance." It was a heavy youngster because it received its proverbial slap on the back with 62 members. That represented about all that could be expected at the time, since only 95 survey courses were given and the maximum number of special courses in life insurance and in property insurance totaled only 64 and 31, respectively. For a long time the new born infant did not increase in weight, the membership varying from a minimum of 56 to a maximum of 66 for the years 1934 to 1939, inclusive. Then a new diet improved the weight—the membership rising to 98 in 1940. At present the membership is 143, about 2½ times that at the beginning, of whom 79 are active, meaning those who "hold a teaching appointment in an acredited college or university in the United States or Canada, and who are offering for degree credit one or more graduate or undergraduate courses devoted entirely to insurance," and 64 associate members, meaning those "who are, or have been engaged in any form of educational work in insurance, but who are not eligible for active membership."

The growth of insurance courses in American universities and colleges since 1935 has been splendid, and much greater than the growth already indicated for the previous 1½ decades. By 1940 survey courses had increased in number during the previous five year period from 95 to 157, offered by 143 institutions of higher learning; special courses in life insurance from 64 to 99; special courses in property insurance from 31 to 53; special courses in casualty insurance from 15 to 28; special courses in property and casualty insurance combined from 18 to 26; and special courses in life insurance salesmanship from 6 to 23; a total of 386 courses as contrasted with 229 only five years previously.

Then came World War II with its withering effects upon instruction in insurance, declared "peace" and not a "war" subject. Yet I am sure that the two postwar years have brought the status of collegiate insurance courses back to the figures of 1940. We shall soon know the facts from the new detailed survey to be made under the auspices of the S. S. Huebner Foundation. So far as I can judge from correspondence and observation, practically all instuitions have attempted

to resume the status they held just prior to the war. In addition many new institutions have been added, all clamoring for teachers properly qualified but unable to find them in ever so many instances.

The present trend in universities and colleges seems now to be most unusual and irresistable. Moreover, organized C.L.U. study groups numbered 187 during the past year, in 115 cities located in 40 states, and with an enrollment of 4,517, or 2 2/10 times the total of 1946. It is interesting to note that of the 187 C.L.U. study groups, 100, or considerably more than half, were conducted under collegiate sponsorship either solely or jointly with some life insurance organization. Enrollment in study groups sponsored solely by universities and colleges this past year totaled 1,114, and in groups sponsored jointly by universities and colleges and C.L.U. chapters or other life insurance organizations, another 1,833, or a total of 2,947, or 65 per cent of the aggregate enrollment in all of the 187 groups. Study groups of the American Institute for Property and Liability Underwriters—with only five years of operation—totaled 32 during the past year and 48 for the present year. Many of these groups are also offered under sole or joint sponsorship of a university or college. Moreover, innumerable educational and training courses have been started within the insurance industry itself. A recent extended survey by Richard deR. Kip for the Insurance Institute of America shows that at least 371 courses, exclusive of C.L.U. Study Groups, are being offered by life insurance companies at present, and 159 courses under the auspices of property and casualty companies.

In view of the aforementioned figures, it seems to me that the membership of our Association is not nearly so large as it should be. The 79 active members fall far short of the number who qualify for such membership, and the 64 associate members, it also seems to me, are woefully short of the large number who are "engaged in any form of educational work in insurance," with private insurance companies, insurance organizations, and C.L.U. and C.P.C.U. study groups. In numbers there is strength and advantage, as well as mutually effective cooperation. Our so-called "active" and "associate" membership groups can work together with great advantage to each other. Each can help the other with its points of view. Looking ahead, I can see great gain from an aggressive policy by our Association to enlarge the membership of both groups. We ought to reach out to obtain the rapidly growing teaching personnel in universities and colleges, as well as in the industry of insurance itself. Our convention programs in recent years have shown the advantage of hearing both sides, the university side as well as the industry side. Similarly we should, as basically important, raise the membership of the groups to the maximum for working and inter-association purposes. Let us give this activity our wholehearted support. A doubling or tripling of membership is easily possible within a year or two, and before long the advantages will be crystal clear.

Types of Cooperation with the Industry

Size of membership, although very important, is not nearly enough. Education ought to have a utility purpose and should, in a practical way, be identified with the insurance calling which it serves, just as

the practitioners in the calling of insurance should be identified with service to educators. Higher education, judging from the other professions, blazes the way through research, methodology, publication and improved educational methods. But its own progress needs the galvanizing influence of constructive suggestions and criticism from leaders in the industry itself. The following three types of cooperative effort suggest themselves, and it seems that all, except possibly one, are already implemented by existing committees of this Association. It is simply a matter of this Association's administration slapping on the work on the various committees involved.

(1) *Professional Standards and Collegiate Preparation for Insurance* Careers.—Our Association already has two standing committees within this area, namely, the Committee on Collegiate Preparation for Insurance Careers and the Committee on Professional Standards in Life, Property and Casualty Insurance. What may be accomplished has already been indicated by two examples. With respect to the first committee, Drs. McCahan and Loman, respectively Deans of the American College of Life Underwriters and the American Institute for Property and Liability Underwriters, prepared last year the brochure on "College Education for Insurance: A Minimum Program." It was prepared with a view to placing before the Deans and Curriculum Committees of colleges of business administration a program capable of "being fitted into existing curriculum structures with a minimum of disturbance and at the same time provide a maximum of appropriate instruction for those planning to enter the insurance business." While exceedingly valuable to teachers and college administrators, this accomplishment is also of prime interest to the insurance industry as indicative of the line of thought developing in our universities and colleges. The brochure has been given wide circulation among leaders in insurance and I know is appreciated. It is thought-provoking and will raise respect for our Association with those who are looking to us for the development of insurance personnel.

With respect to the other committee, I wish to call attention to the creation six years ago of the American Institute for Property and Liability Underwriters. Although the concept of that worthy organization was pleaded many years previously, the anchor would never take hold. Then the weight of this Association was put behind the idea. An invitation was extended to the leaders of the important organizations in the property and casualty fields for a meeting in New York. At this meeting, in a single day, the leading essentials were all approved unanimously "in principle." Then one year thereafter, in cooperation with members of this Association, the Institute became a reality and is now functioning splendidly. In its organization five educators are regularly included in the Board of Trustees. The industry thinks well of us teachers, I know, as having made a real contribution to the welfare of the business and as being capable of rendering further surance industry asked to be included in the title of this Association's committee, the committee previously having referred only to property and casualty insurance.

The aforementioned two illustrations served merely as examples.

There is so much more that can be done in a cooperative manner between this Association and the industry. So many gaps along the textbook line need filling. So many suggestions for better teaching methods should be considered. So great a need exists for research along many lines with all the help we can get from the industry by way of suggested topics and material. The whole field is a good-sized task for continuous work over many years to come. The task may be distributed over the two committees I have mentioned as the Association's administration deems best. It seems to me that these two committees should be kept busy, submitting a report annually to serve as food for thought for our own members as well as for the industry.

(2) *Cooperation with Committees in the Industry.*—Increasingly the insurance industry is setting up national policy committees with reference to educational and training programs. Thus far there seems to have been a tendency "to go it themselves," and often with a large element of error and waste. Here again our Association, through one of the aforementioned committees, might give consideration to the industry's educational policies and plans in a spirit of helpfulness. The ideal approach, as I see it, is for us, when we have policies under contemplation, to confer with duly constituted committees of the industry; and vice versa, when they contemplate the initiation of policies, to have them wish to obtain the views of this Association's committees. Neither should want to "go it alone." A mutual and frank interchange of ideas can but improve the final outcome.

Moreover, the industry of insurance also operates through many local associations and committees, and often help is welcomed by the underwriter group, from a university or college located within the vicinity. I speak feelingly on this subject. The university where I teach has always cooperated with the local associations of Philadelphia and vicinity to ascertain their needs and the practicability of meeting them on a collegiate level. The friendships and mutual respect resulting from this cooperation are enduring. In fact, many of our classes are furnished to us by the local associations without any selling effort on the part of the teaching personnel. I suggest that the membership of this Association, if the university or college has an opportunity to serve locally, bear in mind the outstanding value of local cooperation with the industry. The American College and the American Institute have always pursued this policy at considerable expense. But a lot more may be done by insurance teachers individually for the benefit of the insurance industry within their respective communities.

(3) *The Recruiting of College Men for the Industry.*—Here development has been extremely slow and results have not been nearly so favorable as should be. In fact, some industry reports even say that the industry has not been benefitted appreciably. Most companies, however, do some college recruiting, either directly or through their managers, but selection has been mostly of a more or less indiscriminate character. Dr. McCahan and I have given this subject much thought on behalf of the American College. Our aim was originally that the selection, in so far as possible, should be early in the course of the student, preferably at the end of the Sophomore year, so that the following two

years might include instruction along lines best adapted to a future career in insurance; that the selection should be based on standards and tests designed to secure candidates with a good educational background, a satisfactory personality, an aptitude for the work, and an ability to absorb the vocational training. We also felt that insurance companies, collectively, should agree to take annually from the collegiate schools of business of the country several hundred graduates, starting with the Junior year and based upon the factors just mentioned. The number selected could be apportioned among the associated schools of business. Our thought was that the plan would show institutions of learning just where the insurance business stands in its cooperation with the educational system of the country, and that it would likewise do much towards laying the basis for an intimate working contact with universities and colleges, and thus furnish a tremendous source of worthwhile recruits of the right kind. We had in mind emphasis by insurance employers upon the selection of graduates who have specialized in insurance, rather than the more or less indiscriminate selection of graduates in general, relying on the belief that they might pursue their insurance studies following their employment, and hoping that left-overs and misfits may be avoided.

Present trends indicate that collective action by companies may be postponed for years. While many companies recognize the problem of selection and training, they seem disposed to act individually. Within recent weeks one prominent life insurance company called on the employment division of the university where I teach to explain their comprehensive plan, relating to both field and home office positions. They have and are spending huge amounts on their plan and it is excellent in many respects. They asked for cooperation from our employment division, and promised cooperation with us in return. They desire all the suggestions we may have for improvement of their plan. Similarly, a large property and casualty company has also started with a plan and in a highly cooperative manner. Moreover, the Life Insurance Agency Management Association of the life insurance industry has recently undertaken a survey of the whole subject.

Whether operated collectively or individually, the subject of college recruiting is fundamentally important to us as well as to the industry. I feel that it needs collective thought and study and action on our part. I suggest the creation of a standing committee of this Association on college recruiting to give the subject of recruiting a careful survey with a view to the issuing of a detailed report under the auspices of this Association. We should express our opinions in organized fashion and have them conveyed to the insurance industry. I am sure we can make a contribution to the industry just as the industry can, in turn, help us in our own thinking about the problems that must be met. We should take the initiative and start the ball rolling, in organized fashion, as regards this complex but nevertheless outstanding subject.

Cooperation with the American College of Life Underwriters, The American Institute for Property and Liability Underwriters, and the S. S. Huebner Foundation for Insurance Education.

In addition to the aforementioned types of cooperation with the insurance industry, I hope that this Association, as well as all of its members individually, will always cooperate with the American College of Life Underwriters, the American Institute for Property and Liability Underwriters, and the S.S. Huebner Foundation for Insurance Education. I have in mind that all teachers of insurance in institutions of higher learning should, whenever possible, direct well-selected prospects into the fold of these three organizations. In turn, all of these organizations will be equally anxious to cooperate with universities and colleges. These academic organizations, sponsored and supported by the insurance industry, cooperate most intimately with the insurance industry in truly academic fashion on the collegiate level. All are recognized by the industry as a means of placing the calling of insurance on a professional basis. They bridge in a practical manner the relationship between educational preparation and daily practice thereafter. They have been recognized by the industry as the logical media for improved service, and give an opportunity to the educational field to convey effectively the power of knowledge, ideals, counselorship and teaching.

The American College of Life Underwriters was established for the following five purposes: (1) establishment of an educational standard for the profession of life underwriting, comprising all of the specific as well as general fields of knowledge essential to the rendering of expert advice and service to the insuring public, (2) encouragement and fostering of the training of students in educational institutions for the career of professional life underwriter and fullest cooperation with universities and colleges contemplating the introduction of a complete insurance course, the College believing that the work of instruction can best be given by educational institutions already in existence, just as has been the case in accounting, law, medicine, etc., (3) cooperation with universities and colleges in general life insurance education for lay students, (4) promotion of research and the preparation and publication of texts and other material deemed essential to the fullest realization of the College's program of study in all of the fields of knowledge with which a life underwriter should be acquainted, and (5) awarding, by examination and experience requirements, a professional recognition to properly qualified life underwriters. It is clear that the C.L.U. program of study, and the same is also equally true of the C.P.C.U. program, is right in line with collegiate standards and the collegiate curriculum, the examinations measuring up to anything that a collegiate undergraduate department can offer.

During twenty years of operation, the American College has won its way and is firmly established. Three thousand candidates have now completed all of the five C.L.U. examinations, while another 4,496 have completed one or more of the examinations on the installment plan. Seven thousand, five hundred candidates have, therefore, demonstrated their

knowledge, by examination, in all or a part of the C.L.U. program. Last year 2,564 candidates took the examinations at 121 examination centers in 43 states, 1,655 of these candidates were enrolled for the first time, 3,239 examinations were taken, and the enrollment in C.L.U. study groups for the year aggregated 4,517.

It is interesting to see the leaven work as the number of C.L.U.'s increases with the years. These C.L.U.'s, knowing the worth of the education they have had, are guiding their sons, relatives and friends to universities for the long-range course of education represented by the C.L.U. program of study, as distinguished from short snappy courses of bygone days. The trend is duplicating the C.P.A. movement in accounting. The same trend is also taking place in the C.P.C.U. program. Increasingly students are coming to our universities and colleges to specialize in insurance, to obtain their academic degree as well as the C.L.U. and/or C.P.C.U. designation. At the university where I teach. nearly all students specializing in insurance in both the undergraduate and graduate divisions now come with the intention of obtaining both the academic degree and professional designation. It is also interesting to note that of this year's 1,655 newly enrolled C.L.U. candidates, 6.3% were general agents or managers, 15.3% held other managerial positions, and 13.8% comprised home office agency staff members, educators, etc., a total of about one-third. Moreover, of the 3,000 C.L.U.'s there is an extraordinary tendency to promote the holder of the designation to the managerial group. Many companies formerly apparently uninterested have suddenly brought C.L.U.'s as managers into their home office agency departments. Thereafter progress becomes easy. The trend is most welcome in view of the strategic importance of management in stimulating and pursuing the educational and professional ideals of the insurance industry.

The American Institute for Property and Liability Underwriters presents the same picture already explained for the American College, as regards objectives, standards, progress and trends. Having operated only five years—three of which were war years—148 candidates have passed all of the five C.P.C.U. examinations, while another 405 have credit for one or more of the examinations. Last year 459 took examinations, and of this number 159 were managers, 71 company underwriters, 32 brokers, and 22 engaged in the rating and inspection service. Of the 145 who hold the C.P.C.U. designation, 38 hold managerial positions for companies, 59 for agency and brokerage organizations, while 6 are engaged in educational work, making a total of 103. Of this year's 455 candidates, 248 were college graduates, while another 126 had college or professional school attendance. Of the 1,655 new candidates for the C.L.U. program, it may also be stated, 35% were college graduates and another 27% had attended college, which, when combined, amounts to nearly two-thirds of the total.

The S. S. Huebner Foundation for Insurance Education, created and financed by life insurance companies, is a recognition on the part of the life insurance industry that there is a dearth of trained insurance teachers, that well-trained teachers in universities and colleges are needed, and that a well-trained insurance teacher is a most important center of influence for good to the insurance industry as a whole. Al-

though created by the life insurance industry, it should be noted that the training of teachers extends to all the branches of insurance. The Foundation was created to meet three main types of projects, namely, "(1) awarding of Fellowships and Scholarships to aid teachers in accredited colleges and universities of the United States and Canada, or persons who are contemplating a teaching career in such colleges and universities, to secure preparation at the graduate level for insurance teaching and research; (2) maintenance of a circulating insurance research library; and (3) making grants for the publication of research theses and other studies which constitute a distinct contribution directly or indirectly to insurance knowledge." Although five years of war and two more years of adverse postwar conditions have proved a great handicap, I am happy to state that 22 different persons have had Fellowship and Scholarship grants, and that 10 of these have assumed teaching positions in as many institutions of higher learning. Moreover, many of these teachers in the undergraduate divisions of institutions are likewise participating actively in the teaching of special C.L.U. courses for life underwriters. War handicaps now seem to be lifting, and a good future seems to be in prospect.

A Bright Future

The future of this Association looks bright indeed, (1) because of the rapid growth of the insurance industry, (2) because of the rapidity with which the industry is recognizing the professional concept and the inherent relation of long-range collegiate education of the proper pattern to that concept, and (3) the growing recognition among educators themselves of the inherent importance of insurance as an integral part of a business school's curriculum for laymen as well as for those who seek an insurance career.

In life insurance the prospects for growth are enormous, as the significance of human life values in our economy becomes better understood. The $190 billions of outstanding life insurance with private companies represents merely a good scratching of the surface. It amounts to only about one-sixth of the total that ought to exist if every family head endeavored seriously and thoughtfully to protect dependents fairly and according to decent standards. There should, and soon will be, $1,000,000,000,000 of outstanding life insurance. And the emphasis, in addition, should be on high premium life insurance as distinguished from term insurance to secure the unexcelled thrift and investment services that life insurance offers. Since 1900, life insurance in force in the United States increased 18-fold, annual death claims 13-fold, annual disbursements to living policyholders 20½-fold, and total admitted assets 25½-fold.

The growth in assets is particularly gratifying, namely, from $1¾ billions to $50 billions. Last year's increase—for a single year—amounted to $4 billions, which is more than twice the total assets which had accumulated up to 1900, 1½ times the total assets of 1906, 87% of the total assets of 1911, and 50% of the total assets of 1920. Total admitted assets quadrupled since 1925 and doubled since 1934. They should easily amount

to $150 billions twenty-five years hence. The future of life insurance is particularly bright when we visualize the following factors: (1) the rapid spread of insurance education through our school system from universities and colleges downward, (2) the rapidly improving field force, trained carefully in a knowledge of the subject matter involved, and operating on a professional plane, (3) our social philosophy which is working out to the advantage of life insurance as the only solution for many of our outstanding social ills, (4) the growing atmosphere of paternalism, which is helping to make the public security-minded, (5) the rapid growth and better understanding of the annuity concept, (6) the increased use of life insurance as property insurance, (7) the increased use of life insurance, because of necessity, for bequest purposes, and (8) the growing scientific approach to an understanding of the social and economic significance of human life values, the need of organizing, managing, conserving and liquidating these values through the medium of life insurance, and the recognition of the fact that for the vast majority of people, the "person" is the important part—the 80% to 90%—of the so-called "personal estate."

In the fields of property and casualty insurance the growth has also been enormous since 1900—a growth much greater than the increase in national wealth for the corresponding period. At present the annual income of property and casualty companies in the United States approximates $3½ billions, but will exceed $4 billions if we include the insurance exported to nonadmitted alien underwriters and the large number of public and privately managed self insurance funds. Admitted assets of companies have grown to about $7 billions and surplus to policyholders to about $3½ billions. These branches of insurance may confidently be expected to grow faster than the national wealth for a long time to come. Moreover, there will be an enlargement of coverages and liberalization of contracts, and a much greater emphasis upon loss prevention than has prevailed heretofore. Combining all forms of insurance, it is interesting to note that the insuring public pays premiums today in the neighborhood of $12 billions and that the admitted assets of all private insurers in the United States reaches a grand total of about $57 billions.

Viewing all factors, we teachers of insurance may look forward to a bright future full of opportunity and endeavor. The insurance industry is growing rapidly. It is linking up cooperatively with our higher educational system directly, as well as indirectly through the American College, the American Institute and the Foundation. Now our Association should likewise link up intimately and aggressively with the educational needs and policies of the industry, as well as with the middle-of-the-road organizations, namely, the American College, the American Institute and the Foundation. As an Association we must grasp the opportunities that lie ahead and are beckoning us. We must add to our membership in a manner commensurate with the growth of insurance teaching personnel within universities as well as within the industry

itself. Both of these groups will benefit from close cooperation by way of constructive consideration—yes, criticism—of each other's policies and activities. This is the trend in other professions. It also should be in insurance. Universities have been great creators of thought and action for the professions, and the professions, in turn, have spurred and wholesomely directed academic activities. I am sure that we are entering a new era of emphasis upon higher education for professional business callings. This Association will celebrate its Silver Jubilee ten years hence. By that time, if we accept the challenge, I am confident that all of our record up to now will have been left far behind.

Part II—Review of the Year

Life Insurance

Alfred N. Guertin, Actuary

American Life Convention

In the life insurance business, the year 1947 was one of intense activity in several fields. The most important event was, perhaps, the revision of rates, reserve bases and non-forfeiture by nearly all companies so as to comply with the Standard Non-Forfeiture and Valuation Laws by or before January 1, 1948, the mandatory date in many states. Legislation of considerable importance was enacted in many jurisdictions. Certain economic trends adverse to the business seemed to have been checked in some degree but, on the other hand, the year saw the further development of inflationary forces which are certainly inimical to the welfare of policyholders. Finally, the business, as an economic entity, has been making substantial contributions in the direction of policyholder welfare.

New Business Written

Any annual discussion of life insurance activities naturally starts with an account of the new business written and the amount in force. This review is being prepared in advance of final figures but a good estimate of business written in all jurisdictions by United States companies is prepared early in December by the Life Insurance Association of America, based on reports of 261 companies. In his review last year, Mr. M. Albert Linton gave a table based on these reports and, in order to lend continuity, a similar table is included in this account. The amounts in the table include paid-up additions and are given in millions of dollars.

	New Life Insurance Paid For			*Life Insurance in Force at Year End*		
Class	1946	1947	*Percentage Increase*	1946	1947	*Percentage Increase*
Ordinary	$16,557	$16,000	—3.4%	$116,110	$125,600	8.2%
Industrial	4,480	4,600	2.7	30,247	31,600	4.5
Group	2,422	2,800	15.6	28,196	33,300	18.1
Total	$23,459	$23,400	—0.3%	$174,553	$190,500	9.1%

The Life Insurance Agency Management Association publishes monthly a survey of life insurance sales in the United States. Based on reports of some 97 companies which write about 85%, 72% and 98%, respectively, of the ordinary, industrial and group business, the survey is adjusted as an estimate for all companies. For comparative purposes, figures for the last three years are given in the following table. The figures, which exclude revivals, increases, dividends and reinsurance acquired, are given in millions of dollars.

Life Insurance Sales in the United States

	1945	1946	1947
Ordinary	$ 9,760	$15,092	$14,776
Industrial	3,085	3,970	4,099
Group & Wholesale	1,295	2,280	2,798
Total	$14,140	$21,343	$21,673

In the year 1946, the amount of new ordinary business paid for in U. S. companies was $16,557,000,000, an increase of 53.4% over the writings of the preceding year. It has been estimated that the writings of 1947 will be less than those in 1946 by some $557,000,000, or approximately 3%. However, writings in November and December were very heavy. Policies issued in the United States were some 2% under 1946 but still 57% above the average for the previous five years. The level established in 1946 and 1947 is about twice as high as the average for the decade ended in 1944 and is about 3% higher than the previous top year of 1929. It may well be that we have seen, in the last two years, the establishment of a new level of life insurance sales. On the other hand, the relative levels of national income for the corresponding periods indicate that there is room for further expansion in this area.

Industrial insurance sales improved over 1946 by about 3% but the greatest increase was in the group and wholesale field, where there was a 23% gain in the sale of new contracts following a 76% increase in the preceding year. It will be observed that new issues in 1947 were more than twice the amount in 1945 and 57% greater than the average sales for the five year period ending in 1946.

A continuation of present trends will see the life insurance business complete its second hundred billion of life insurance in force in 1948. The increase in insurance in force during 1947 was approximately $16 billion and brought the total in force of $190,500,000,000. If production, mortality and terminations continue at the 1947 level, the business will pass the $200 billion mark in the latter half of 1948, just nineteen years after having established the first $100 billion.

Standard Non-Forfeiture and Valuation Laws

The legislative program, which has now resulted in operations under the new principles established in these laws in all but one of the forty-nine jurisdictions in the United States proper, developed in three phases. In a number of states, the legislation was adopted on a mandatory basis and in essentially the form recommended by the National Association of Insurance Commissioners. In other states, it was enacted on a non-mandatory basis. In still another group of states, a short form of the legislation was adopted, solely in order to make operations under the new principles possible.

The year 1947 saw the enactment of this legislation in New York, Ohio, Minnesota, Kansas and Washington and the enactment in North Dakota, South Dakota, Wyoming, Idaho, Utah, Arizona, Rhode Island and Texas of short form amendments designed to permit operation of companies in accordance with the principles of the legislation. Thus, at the end of the year, legislative action to permit operation throughout the country under the new laws remained necessary in only two jurisdictions. A short form permissive bill failed in Oklahoma and a man-

datory bill was enacted in the District of Columbia early in 1948. Action in Oklahoma is expected in due course. In a number of states, company operations in conformity with the new principles were possible under existing law, so that, from that standpoint, new legislation in such states was not essential.

Altogether, a period of five years elapsed between the date on which the National Association of Insurance Commissioners recommended the new legislation and the earliest mandatory date, that is, January 1, 1948, during each of which there was progress in the legislative program. There follows a schedule showing the status, on March 1, 1948, of the legislative situation, with indication of mandatory dates:

Laws Mandatory January 1, 1948

California	Massachusetts	New Jersey
Delaware	Michigan	New York
Illinois	Minnesota	Oregon
Indiana	Missouri	Pennsylvania
Kentucky	Montana	Vermont
Maine	New Hampshire	West Virginia
		Wisconsin

Laws Having Mandatory Dates

District of Columbia, January 1, 1950	
Maryland, April 30, 1949*	North Carolina, January 1, 1950
Nebraska, January 1, 1950	Virginia, April 1, 1948
New Mexico, January 1, 1950	Washington, July 1, 1948

*Commissioner may extend to not later than Jan. 1, 1950 in case of particular companies.

Non-Mandatory Laws

Kansas
Louisiana
Ohio
Tennessee

Short Form, Permissive Laws Enacted

Arizona	North Dakota
Colorado	Rhode Island
Connecticut	South Dakota
Hawaii	Texas
Idaho	Utah
	Wyoming

States In Which Legislation Was Unnecessary For Operational Purposes

Alabama	Iowa
Arkansas	Nevada
Florida	Mississippi
Georgia	South Carolina

Legislation Not Enacted

Oklahoma (Legislature Reconvenes 1949)

In passing, it may be remarked that these laws were approved by the National Association of Insurance Commissioners as *regulatory* statutes. States which enacted short form bills, for operational purposes, as well as those where amendment was not required for such purposes, will, undoubtedly, as the need for closer regulation of reserve bases and fixing of definite minimum non-forfeiture benefits becomes more apparent, seek the enactment of the Standard legislation. Presumably, also, states which have enacted these bills on a non-mandatory basis will, in due course, make them mandatory. The business will cooperate with regulatory authorities in bringing about these changes as it has in the case of the states where legislation has already taken place.

New Policy Forms and Rates

It will be seen that January 1, 1948, was the mandatory date for compliance with the Standard Non-Forfeiture and Valuation Laws in 19 states. This was sufficient to cause nearly all life insurance companies to revise their policy forms and premium rates before that date in all jurisdictions. As a result, we have seen in 1947 the greatest movement to revise policy contracts that has yet been experienced in this country, with its consequent burden on actuarial and legal departments of companies in the preparation of policy forms and rates, agency departments in the orientation of agencies and agents, and the insurance departments of the various states which were swamped with thousands of forms for approval, many of them submitted late in the year.

The normal effect of the new laws may be seen in the new rates and values of the few companies which did make the required changes in two steps. A few stock companies issuing non-participating policies had changed to a more conservative interest rate with the American Experience Table some time ago and later to the same rate of interest with the CSO Table. In these companies, we have seen a decrease in premium rates at the younger ages on low premium plans and a decided drop in premium rates for term policies. Increases, few in number, were concentrated at the high ages and high priced plans.

Generally speaking, however, premium rates were increased, non-forfeiture benefits were raised and the interest rates used for valuation of reserves were lowered. At the same time, settlement options were also revised to reflect lower interest assumptions. As a result of the changes, there is probably a larger variety of premium bases, and scales of non-forfeiture benefits in effect than for some time in the past, a situation reflecting a healthy competitive situation.

Under the section headed "Interest Rates" discussion is had of the trend over recent years and the present situation. The need for revision of rates, values and reserves has been evident to actuaries for a number of years. Companies, however, in view of the impendency of the mandatory requirements of the Standard legislation were reluctant to make two complete changes in actuarial bases, one for interest and one for mortality table. Hence, many companies deferred rate changes which would normally have taken place many months ago until the time came for qualification under the Standard legislation. Increases in premium rates which came with adoption of the new bases were definitely overdue and were not caused by the new laws.

As for reserve bases, the most widely used is 2½% interest with the Commissioners 1941 Standard Ordinary Mortality Table. The same basis is also used by most companies for the calculation of non-forfeiture benefits. Interest rates adopted vary from 2% to 3%, a few mutual companies adopting 2% and a few stock companies adopting 3%. Only a few companies have shown a disposition to use a more conservative interest rate for valuation of policy reserves than for non-forfeiture calculations, as permitted by the Standard legislation, a result, possibly, of the attitude indicated by the New York authorities and also legal difficulties remaining in a few other states. In the case of settlement options, the use of the 1937 Standard Annuity Table is almost universal, either with or without set back in age. The interest rate

adopted does not usually exceed 2½% and a number of companies are using a 2% rate.

It is a tribute to both companies and supervisory authorities that the end of the year came and went with so few disturbing events. Numerous problems of interpretation of the new laws arose during the year. The Hooker Committee, a sub-committee of the Life Insurance Committee of the National Association of Insurance Commissioners, was called upon for assistance by a number of states. While all its decisions were not popular, the procedure established did result in placing companies in the position of knowing what state attitude would be on a number of difficult points. Most states adhered reasonably closely to the decisions of the Committee. Deviations were generally on the side of liberality.

One of the most significant actions of the Hooker Committee was the recommendation of a course of procedure to facilitate the filing of policy forms. A recommendation that credence be given by all state insurance departments to the filing of a policy by the insurance department of the home state of a company was generally accepted. Without this acceptance, it is not improbable that many companies would have been without policies to issue on January 1, 1948. Its acceptance is a tribute to the understanding and cooperative attitude of the supervising agencies. On the other hand, one cannot fail to be impressed by the possibilities of such procedure in a number of fields of supervision. If the various state officials have confidence in the efficiency of each other's work, the possibilities are almost endless.

Group Insurance

Not only was 1947 an active year from the standpoint of production in the group insurance field, but it was also an active year from the standpoint of legislative activity in that field. It will be recalled that 1946 saw the adoption of standard definitions and standard provisions for group life insurance by the National Association of Insurance Commissioners These definitions and provisions were formulated by the Life Insurance Committee of that Association after extensive study and interested parties had been given full opportunity for hearing.

During 1947 seven states adopted the recommendations of the Commissioners in modified form; two states amended their laws so as to bring them in reasonable conformity with the new statutes, and some five additional states passed group insurance laws which embodied some of the principles contained in the Commissioners' recommendations. With this legislation has come the almost universal breakdown of the traditional minimum of fifty lives. This has now been reduced to twenty-five in practically all jurisdictions, thus making available the advantages of group life insurance to a substantially larger number of establishments than had heretofore been the case. In all states where group insurance legislation was enacted, the so-called thirty-one day conversion period was retained in spite of the fact that the Commissioners had recommended a forty-five day period. In other respects, however, some state legislation was broader than that recommended by the Commissioners, particularly in the field of making group insurance available to public employees on an employee-pay-all basis.

Although the new legislation had been recommended only after full

discussion and after all interested parties had had an opportunity to be heard, a number of questions continue to be discussed most actively. Possibly the largest area of controversy lies between those who look upon group insurance as a means of bringing the protection of life insurance to a large segment of the public not otherwise able or likely to obtain it, and those who believe that group business should be written only among highly homogeneous groups, and with close supervision, so that it will not get out of hand in such a way that the advantages of low cost will be lost and groups established where evils similar to those of assessment insurance might develop. The conflict of views has been made additionally complex by the rather sensational growth of group coverage, giving rise among agents to fears that the field for individual policy sales might thereby be narrowed.

Investments

The proper investment of funds is always a primary responsibility of life insurance management. Study of trends is rewarding in that it indicates into what new fields the accumulations of policyholders' funds are being directed. Through returns from 49 life insurance companies, holding about 90% of all assets of all U.S. companies, the Life Insurance Association of America makes an estimate of the total assets of both groups each year.

It is estimated that at December 31, 1947, U. S. life insurance companies held assets of $51.5 billion, an increase of $3.3 billion, or 6.9%. The following table, which is similar to those given by Mr. Linton in his articles in previous years, shows the distribution by investment categories of the assets of the 49 companies referred to on December 31, 1946, and the corresponding estimates as of December 31, 1947. All figures are given in millions.

			Percentage of Total	
	Beginning	*End of Year*	*Beginning*	*End of Year*
Type of Asset	*of Year*	*(Estimated)*	*of Year*	*Estimate*
U. S. Govt. Bonds	$19,906	$18,500	45.94%	40.04%
State, County & Municipal	458	450	1.06	.97
Canadian Government	1,201	1,240	2.77	2.68
Railroad Bonds	2,680	2,718	6.18	5.88
Public Utility Bonds	5,103	6,413	11.78	13.88
Other Bonds	3,197	4,484	7.38	9.71
Farm Mortgages	674	740	1.56	1.60
Other Mortgages	5,333	6,460	12.31	13.98
Policy Loan & Premium Notes	1,651	1,695	3.81	3.67
Real Estate	657	750	1.52	1.63
Preferred & Guaranteed Stocks	708	946	1.63	2.05
Common Stocks	226	229	.52	.50
Other Assets	967	1,015	2.23	2.20
Cash	567	560	1.31	1.21
Total	$43,328	$46,200	100.00%	100.00%

Of interest is the first decrease in many years in the Government bond account. This reflects the cessation of new issues by the U. S. Treasury and the calling of short term maturities as well as some liquidation on the part of companies. The companies have continued to show interest in the utility and industrial bond fields, the increase in holdings in these fields being 26% and 40%, respectively. Companies have become increasingly interested in private purchases of industrial securities which are designed to meet the requirements of lender and borrower alike. For the purposes of life insurance companies, these are often more desirable than regular market securities. A large increase in city mortgages is also evident, the total being $6,460 million, an increase of 21% over the previous year. In new mortgage accounts city mortgages have been largely preferred, the amount held increasing about $1.3 billion, or about 21%. Acquisitions, including substantial amounts in the FHA and G.I. categories, were well in excess of the increase shown, since repayments and amortization in existing accounts have been large.

For the first time in many years, the aggregate real estate portfolio has shown an increase. Such increases have heretofore been regarded as reflecting an increase in foreclosures. This is no longer true. Broadened investment statutes under which interest in real estate (income properties and housing projects) as a primary investment can be given practical expression, have been enacted in a number of states. An unusual trend in real estate portfolios has resulted from the fact that a number of companies have taken advantage of these new statutes. Liquidation of foreclosed properties has continued, of course, during the year, but acquisition of properties for investment has become substantial.

Life insurance companies are not contributing to the solution of housing difficulties only by the advancing of mortgage loan funds. Housing projects owned by the companies, representing an investment of about $138,000,000, already provide housing for about 100,000 persons. Under construction are housing developments for about 70,000 and additional projects in the planning stage will house an additional 30,000. This field is relatively new for most companies and represents a further development of service to the general public on the part of life companies. The further relaxation of restrictive state investment laws and reduction in the excessively high cost of construction would probably see a considerable broadening of investments in this field.

While the total stocks owned still do not represent a large percentage of assets, there has been a distinctly upward trend, particularly in preferred stocks. An increase of over 33% in the portfolio in 1947 indicates a substantial interest in this category. It is undoubtedly contributed to in considerable measure by private purchases of whole issues by individual companies. However, it should be observed that life insurance companies are still debt holding investors, over 96% of all invested assets being in debt instruments.

Interest Rates

The downward trend of interest rates has been a matter of concern to life insurance executives for a number of years. It has continued un-

abated for a period of twenty years, the decline becoming steeper as the Government debt increased and as easy money policies, affecting the entire investment market, were imposed. The enormous effect of the change is graphically illustrated by the fact that the earnings rate of the companies was 5.25% in 1925; 4.50% in 1930, and 3.61% in 1940. The year 1946 saw the all-time low of 2.92% earned on life insurance company assets. That the earnings rate during 1947 was much higher is unlikely. It will be seen that had interest been earned in 1947 at rates prevalent years ago, dividends to policyholders would have been far greater so that the cost of insurance to policyholders would have been lower by amounts bearing a very substantial ratio to the actual cost.

While the earning rate on new investments was falling, the rate on existing portfolios was also falling. When long-term Governments were selling at a 2.2% to 2.3% basis and the first grade corporates could be marketed at about 2.7% or 2.8%, it was a most favorable time for corporations with outstanding callable bonds carrying higher interest rates to take advantage of the situation. They did, and in large numbers. The process was also extended to certain preferred stocks. Hence, the earning rate on life company portfolios shrank not only on account of the injection of large amounts of government bonds purchased by the companies, the purchase of new corporate issues at unusually low yields, the purchase or granting of mortgage loans at the lower rates of interest than have been generally prevalent in this country, but, also, because investments made years ago at good rates of return were being refunded by issues of no better grade at substantially lower rates.

A reversal of this latter process cannot occur, even if interest rates take a definite and prolonged upward trend. Increase in overall interest rates on security portfolios will be the result only of purchases of new investments at higher rates. That higher rates can be expected is indicated by the October break in the government bond market, the lower support levels for such bonds, the gradual raising of short term interest rates by the Treasury, as well as by other governmental action to curb inflation. Apparently, 1947 saw the bottom of the interest curve, at least for the time being. These changes for the better are not sufficiently great, however, to warrant any particular applause by policyholders. Their significance would lie in the fact that a trend seems to have been halted.

New Annual Statement

The year 1947 saw the completion of a new form of Annual Statement for life companies, prepared by a Joint Committee of the American Life Convention and the Life Insurance Association of America. Work on such a revision was interrupted by the war although considerable progress had been made. The financial pages were printed and distributed in December, 1944. The balance of the Statement, consisting largely of asset and other schedules, has now been completed and is before the Committee on Blanks of the National Association of Insurance Commissioners. It is subject to approval by that body before it can be placed in general use. The new form is on a revenue basis, includes accident and health insurance, and is designed as a document which

will be reasonably comprehensible to accountants, business men and the public.

It is significant that the fire and casualty business has been embarked upon a similar project and a revised form of blank, consistent with the principles of the new life annual statement blank was presented for consideration to the Committee on Blanks of the National Association of Insurance Commissioners at its meeting in Miami in December, 1947.

Insurance Supervision

One of the actions in 1947 of the National Association of Insurance Commissioners, which may ultimately have far-reaching effects, was the decision to enlarge and finance the office for the Secretary of the Association. Maintenance of records at a central point and the availability of information to the various states from a central source under the control of the Commissioners themselves will be an important aid to cooperation.

More and more, as time goes on, the need for such an office has been found increasing. Greater cooperation among the states involves the necessity for the dissemination, accurately and quickly, of information on numerous matters. Over the years the Commissioners have built up an enormous body of source material, the importance of which does not necessarily diminish with the passage of time. The employment of a full-time Assistant Secretary, as is intended, should make it possible for Commissioners to have available, at all times, full information on the policy of the Commissioners' Association with respect to any number of questions and covering a long period of time.

The establishment of an office by the Committee on Valuation of Securities several years ago and the efficient way in which it has carried out the work of that committee indicates what can be accomplished by a full-time staff on behalf of an organization such as that of the Commissioners. It can be predicted that the Secretary's office will grow in importance and usefulness as time goes on and may ultimately be a strong factor in the retention of supervision by the states.

Considerable legislation consisting largely of rate regulatory bills applicable to fire and casualty insurance, and a few fair trade practices bills designed to meet the situation created by the SEUA decision and Public Law 15, were enacted during the year. While life insurance has not been seeking any exemption from the Sherman Act or other Federal legislation, it has continued to cooperate with segments of the business and with the National Association of Insurance Commissioners in meeting the supervisory problems incident to those developments. Problems relative to the implementation of these laws have had much attention on the part of the Commissioners. Since this legislation and implementation thereof will undoubtedly be discussed by those reviewing the fire and casualty fields, there is no necessity for further discussion here.

Research and Education

Developments in the investment field of vital importance have come thick and fast in the past several years, and the need for a well-staffed research organization, having the special interest of life insurance in mind, has become increasingly obvious. The Joint Committee on Investment Research of the American Life Convention and the Life In-

surance Association of America has functioned in this field for several years. During 1947, the Committee established a permanent, full-time staff of competent research economists and is in a position, both as an independent organization and in cooperation with other research organizations, to serve the life insurance business.

The Life Insurance Medical Research Fund continues in its support of research in the field of heart ailments through the grant of funds to medical schools, hospitals and research organizations. In addition, a number of student and post-graduate fellowships were granted. This work through non-life insurance channels is an important contribution to public health.

Increasing sales of new life insurance have brought with them renewed efforts to step up sales training activities, and a greater interest in sales research work. 1947 saw the establishment of the Life Underwriters Training Council, sponsored by the National Association of Life Underwriters and supported by the American Life Convention, the Life Insurance Association of America and the Life Insurance Agency Management Association.

The year 1947 also saw renewal of the work of the S. S. Huebner Foundation for Insurance Education at the University of Pennsylvania. Announcement of Fellowships and scholarships has been made and the program of Foundation Lectures has been resumed.

For the second year since the War, the Life Insurance Officers Investment Seminar, sponsored by the American Life Convention and Indiana University, was held with good attendance on the campus of the University. Plans for the 1948 Seminar involve sponsorship by the Convention and the University of Chicago with the situs changed to Lake Geneva, Wisconsin.

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The year 1947 was a memorable one in the life insurance field in a number of ways other than those which are discussed above. The work of the Life Office Management Association in the study of expenses of operation holds promise of much value to the business. The further assumption or responsibility on the part of the business to advocate or support measures promoting policyholder interest, as distinguished from matters involving operations, as well as other matters of broad public interest, such as Social Security and fiscal affairs, is a distinct service to national progress. Without fear of contradiction, it can be said that 1947 has been a year of fruitful activity of life insurance in the public interest.

Property and Casualty Insurance

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Three issues in 1947 almost completely absorbed the interest of Fire and Casualty insurance men. They were the passage of rate laws in most states to meet the 1948 deadline imposed by the McCarran-Ferguson Act (Public Law 15)—including, of course, the maneuvers and agitation in state after state while legislation was being considered—the problem of finding sufficient capacity to handle insurance needs and, to a large extent allied with the second, disputes over rates of commission. Although there were important developments in coverages and other matters, few people paid much attention to any but the three big issues.

As the writer has pointed out in previous reviews, 1944 was the year of shock, because of the United States Supreme Court decision in the Southeastern Underwriters Association case, 1945 was the year in which the situation was analyzed, congressional legislation (the McCarran Act) gave the insurance business and the states a chance to work out a system of supervision and 1946 was the year of acrimonious debate over the course to follow. By this reasoning, 1947 can be called the year of state legislative action, in which the program was finally generally adopted. 1948 and the immediately subsequent years will undoubtedly be those in which the system will be tested.

The Problem

The Southeastern Underwriters Association decision held that insurance is commerce and consequently that such insurance activities as are interstate come under the Federal Anti-Trust Laws and other federal laws affecting interstate commerce. Since the Anti-Trust Laws, particularly the Sherman Act, prohibit agreements to fix prices and other combinations of people and business, the whole structure of cooperative action as to rating, standard policies, etc., under which the Fire and Casualty business had operated for decades, was, on the face of the decision, outlawed.

The McCarran Act recognized the desirability of cooperative action in many aspects of insurance, but established the principle that cooperative action should not be permitted without some form of government supervision in the public interest.

The gist of the McCarran Act, accordingly, was that the Sherman, Clayton, Federal Trade Commission and Robinson-Patman Acts should apply to insurance only "to the extent that such business is not regulated by state law." To give the states a chance to set up a system of regulation, the McCarran Act further provided that these laws should not apply to insurance at all until 1 January 1948, except that the Sherman Act should apply to any "act of boycott, coercion or intimidation." During 1947 Congress extended this "breathing spell" to 1 July 1948.

As was noted last year, the Supreme Court, in 1946, upholding the constitutionality of the McCarran Act in Robertson vs. California and Prudential vs. Benjamin, pointed out that nowhere in the history of the United States has there been a law similar to the McCarran Act. Never before did Congress abdicate or delegate its regulatory power over a specific business to the states. In spite of its uniqueness, the constitutionality of the law was upheld.

The insurance business and the states, therefore, were faced with a deadline for enacting legislation which would "regulate" the business of insurance sufficiently to satisfy the requirements of the McCarran Act and at the same time take reasonable account of the widely diversified interests affected by such legislation.

The Model Bills

After months of argument, public and private, as described last year, the All-Industry Committee, representing all interests of the insurance business, and the National Association of Insurance Commissioners finally agreed upon model proposed rate legislation. The Commissioners-All-Industry Bills, as they were commonly called, had, at the very least, one distinctive recommendation—they represented a compromise acceptable to the many conflicting segments of the business.

The two bills—fire and casualty—were basically similar. They authorized cooperative action in rate making, gathering of statistics, etc. and provided that uniformity in insurance rates should be neither required nor prohibited and that reasonable competition should be encouraged. They required that rates, rate plans and rules should be filed with the state insurance commissioner, who would have the authority to approve or disapprove them. Rating bureaus, subject to license and supervision, might file for companies, but no company should be compelled to become a member or subscriber to a bureau. Bureaus, on the other hand, were required to admit any insurer as a member or subscriber. Deviations from filed rates were permitted with the approval of the commissioner and provision was made for appeal from actions of bureaus and of the commissioner, as well as for setting up machinery for rate administration.

An important feature of the model bills, entirely new to the insurance business, was the autthorization of "advisory organizations" under insurance department supervision. This group included organizations which do not directly make rates but which furnish data, usually on a nationwide basis, upon which rates could be made by bureaus. This authorization permitted some organizations which had previously made rates for certain classes of business to continue their statistical and recommending functions, without running afoul of the anti-trust laws, but to surrender the actual rate-making to bureaus.

Legislative Results

The story of the legislative arguments in the different states during 1947 would make interesting reading if space permitted. In many states, where all insurance interests agreed upon the All-Industry bills, the legislatures, impressed by the unanimity of opinion, passed them almost without discussion. In others, opposition from some segments provoked rows which were historic and could have been amusing to a disinterested

outsider. Perhaps the high point was reached in one state where opponents of a bill—which differed considerably from the All-Industry pattern—ran daily newspaper and radio advertisements denouncing the "black market insurance bill." In another state, a proponent of the bills, comparing them to fair trade laws affecting other businesses, accused some insurance men of wanting to do "what a fish peddler can't."

The final result was that somewhat more than 30 states passed legislation substantially similar to the All-Industry model bills, with more or less variation. About 13 states passed or already had some species of rate regulatory legislation. By the beginning of 1948 only Rhode Island and the District of Columbia could be classed as having no rate laws, though the statutes of some other states were so vague that there is a serious doubt if they provide enough "regulation" to provide a defense to a federal anti-trust action.

There is decidedly no uniformity in the state picture. In many states, additional legislation was superimposed on old laws, with a confusing result, and in others the departure from the All-Industry pattern was material. Several states, mostly southern, have set up state rating bureaus and require all companies to be members, while other states in that territory have state rate commissions which function quite differently, at least on the surface, from the rate departments of insurance commissioners' offices. Perhaps before 1948 is over, certainly not very long after, court actions which will answer questions as to the adequancy of various aspects of supervision will be under way.

Bureaus and Organizations

An important result of the rate law changes was a change in the status of many prominent insurance organizations. Obviously, no insurance organization can longer function as both a trade association and a public rating bureau. At the beginning of 1947, the Board of Fire Underwriters of the Pacific gave up its rating functions, the new Pacific Fire Rating Bureau assuming them. (Similar steps had been taken a few years previously by the Chicago Board of Underwriters and the Boston Board.) The Southeastern Underwriters Association—defendant in the now classic case—surrendered its rating functions to state bureaus in many of its states.

The Towner Rating Bureau went out of existence, the Surety Association of America taking over fidelity and surety rating. The National Bureau of Casualty & Surety Underwriters dropped "Surety" from its name—it had never entered that field. The Explosion Conference, Sprinkler Leakage Conference and Eastern Tornado Insurance Association merged into one organization; the Allied Lines Association became a rating bureau in some states and an advisory organization in others. Several other prominent organizations, such as the Interstate Underwriters Board and National Council on Compensation Insurance, began the same "double life." The American Mutual Alliance became strictly a trade association, the Mutual Statistical Association qualifying as an advisory organization in many states.

Capacity Problems

That the insurance business was having trouble handling the coverage offered it was apparent by 1946 and the situation got worse in

1947. The tremendous increase in insurable values shot all premiums skyward. Much of this business was written for three and five year terms, tying up money which came out of surplus into unearned premium reserves. The drop in securities markets further cut into surpluses and adverse loss experience provided a three-way squeeze which made additional business not only uninviting but often impossible to accept. It was a far cry from the 1930's, when many persons were asserting the fire and casualty insurance business was over-capitalized and needed the retirement of many companies.

The situation had political implications, particularly in the automobile field, where financial responsibilty laws made coverage almost mandatory for motorists and bad accident ratios, plus skyrocketing costs in repairs, medical bills, etc., made automobile insurance, once a field of bitter competition, practically an accommodation line. The answer in many states was an extension of assigned risks plans, under which risks unable to get insurance through regular channels were parceled out to companies in rotation, sometimes at a surcharged premium and usually at a reduced commission. An assigned risk plan violates the cherished principles of individual underwriting and selection, but most insurance officials were realistic enough to see that failure to provide needed coverage would inevitably mean state insurance funds.

In fire insurance, the loss situation was not helped by disasters such as the Texas City explosion, the explosions in downtown Chicago and downtown Los Angeles and a series of severe windstorms, but basically the big trouble was inflated values and costs of repair and replacement. The great spread of extended coverage and all risk contracts as the personal property floater meant that every disaster involves tremendously more insured losses than ever before.

Rate increases were secured in automobile insurance generally and in fire insurance in some states. Although the picture was by no means happy at the end of 1947, there was at least reasonable hope that the worst was over.

Commissions

With business being bought and not sold and with companies so glutted that agents were asking for representation instead of the usual vice versa, it was only natural that agents' commissions should become a sore point. Many fire insurance companies in various areas announced general reductions in commission scales, particularly in the so-called "excepted cities," where the scales had been higher than elsewhere. In at least one state, action was started under the state antitrust law, accusing several companies of illegal combination on this point. If this case should be carried through, it may be an important legal milestone.

The National Association of Insurance Agents adopted a conciliatory position, asking the companies to defer action until the association completed a survey of agency operating costs, in the hope that its studies would provide data on which a reasonable compensation could be based, considering services rendered. By the end of the year, the feeling, which had been extremely bitter, had improved materially and many agents had made individual amicable adjustments with their companies. In the

opinion of outsiders, it was most unfortunate that matters had ever been allowed to get to the acrimonious stage.

The great majority of agents—and probably of company executives as well—do not want commissions to be regulated by law. In a number of states, provisions were inserted in the rate laws denying the insurance department any authority over commissions. Even without a specific prohibition, it is still doubtful if most rate laws authorize such regulation, except to the extent that a court might hold the commission to be an important factor in the rate.

Other Developments

In two state court cases in 1947, cooperative insurance action was held within the law. The famous Missouri rate case was finally disposed of. Although the final decision was generally adverse to the fire insurance companies, the Missouri supreme court did hold that many cooperative actions were not contrary to the state anti-trust law. In Minnesota, the Minneapolis Underwriters Association was victorious in a suit based on the agents' association membership rules, mainly on the ground that the complaining agent was unable to show that he had been kept out of the insurance business.

The status of many insurance practices is still in doubt and may be for some time, since the insurance business of necessity had to concentrate first on the rating situation. Undoubtedly there will be many years of decisions before all the questions are answered.

Multiple line underwriting made more progress, both in legislation and in practice. An interesting development was that most state rate laws put all forms of automobile insurance under the casualty provisions.

One large fire insurance group took the surprising step of merging all its subsidiaries into the parent company. Several of the subsidiary companies had operated largely through general agencies, who thus lost valuable representation. There was a general trend away from general agencies, a trend typical of rising business condition, when a company can operate profitably on a direct agency basis. Whether this trend will become permanent is a question which can be answered only as premiums again become scarce.

Social Insurance

By W. Rulon Williamson, Actuarial Consultant
The Wyatt Company

I. *Introduction*

This is the fourth annual discussion on social insurance I have had the privilege of presenting through the March Journal of this Association.

In the first, dated March, 1945, I called the year 1944 "a year of reorientation in social insurance". 1945 seemed to me "a year of inquiry". 1946 marked the end of "a decade of old age protection". 1947 seems to me the year of increased responsibility, the year of recognition of the need for balance. The One World of Wendall Wilkie is having a hard time being born and most of the time it looks like two worlds. The all-purpose social insurance programs, claiming a collectivist cradle-to-the-grave responsibility, must not unbalance nor overthrow the two sturdiest economies of the world—those of Canada and the United States We are in and of the world. The Marshall Plan recognizes that the responsibility of rebuilding has succeeded the responsibility of checking the aggression that led to World War II. We had been scornful of the "balance-of-power" politics. We cannot afford to be too scornful. *Balance* is a hard-won value. Power demands responsible use. *Responsibility* does not necessarily accompany power. It must be sought.

II. *The U.S. Program of Social Security*

In the last year's review I indicated the complexity of a national program of old age and survivors benefits where over half the population is "covered" as consistent, casual or intermittent "tax-payers" but with nearly half of that covered group "uninsured". I suggested the awkwardness of applying the word "insurance" with its wide range of specific meanings and additional connotations to such a plan of benefits. Awkwardness is a mild word for the gigantic omission of protection, the apparent capriciousness and discrimination, the apparent lack of the twin disiderata of responsibility and balance.

The terms insurance and security have been used in our programs. Security is the broader. It is applied to a whole series of programs respectively called insurance, assistance and social services. Insurance grants benefits largely without needs tests or means tests, as a right. We have two insurance programs, old age and survivors insurance and unemployment compensation. The first is federal, using one benefit formula, the second is federally induced but state-administered and the benefit formulas are somewhat variable. Assistance or categorical relief is of three types, "old age", "dependent children", "needy blind". All other assistance is still called "relief" or "residual relief". The assistance are state-administered, federally subsidized. The social services deal with benefits to children, with vocational rehabilitation, with employment placement agencies. Insurance can deal with the three

major personal catastrophes, death, old age joblessness and extended disability, though the third is a special problem.

The United States insurance-assistance programs do not include the personal catastrophes of long duration unemployment and of the medical expenditures for an individual which reach gargantuan proportions. Well along in the depression there was a considerable "hard core" of unemployment where many men said they had been continuously jobless for several years. All of us know the tragedy of the unusual scourge of illness that runs into thousands of dollars per person. In behalf of neither of these two catastrophic situations has any practical, forthright proposal for indemnification as a right been presented. The serious but non-catastrophic risks of temporary unemployment and temporary disability are in operation, the former in all states, the latter in two states, California and Rhode Island. The railroad employees are also covered for temporary unemployment and temporary disability under a federal program. There has been a series of bills for health insurance to deal with costs of medical care on a national basis. These covered episodes of sickness would be both serious and trivial.

Personal risks may be catastrophic, serious and trivial. I should explicitly limit federal responsibility to the catastrophic. In England, the Beveridge championship of childrens allowances, marriage endowment and burial payments dealt with needs of quite different orders. The Beveridge report is at its weakest in discussing the existing "private" insurances for here he fails to show an adequate understanding of the structure of level premium life insurance and of the selling methods that make it broadly effective. In the Beveridge report in England, the Marsh report in Canada and the National Resources Planning Board's report in the United States, we have a trilogy of "too-sweeping-proposals", out of balance because openly or tacitly aiming at too wide control of the benefits designed to meet personal responsibilities. The British law deleted some of the less wise aspects of Beveridge. These notes on the English speaking countries recognize that the British have been more democratic and more currently effective than the Central Europeans.

Security at the expense of freedom is unpalatable to the pioneer. The pioneer spirit still persists in America. Security in a world at war or near-war cannot honorably be *promised*. More responsibility is in order even in the use of such a word. Insurance, too, has connotations, largely the term insurance connotations of sharing the costs stemming from catastrophes that strike the few by spreading the financial provision therefor among the many. Insurance is quite distinct from savings in that in insurance when the money goes into pooled reserves we may get it back only when the catastrophe hits us. But level-premium life insurance has introduced, in addition to the current protection concept, the concept of deferred provision with its concomitant of individual cash values (available at the termination of the contract.) These values seem closely allied to savings. This fallacy of life insurance being completely a bank account, of "having ones cake and eating it too" permeates the popular "explanations" of life insurance and, in turn, of social insurance. The Elizur Wright and

the Guertin rationalizations of the life insurance business have as yet no counterpart in social insurance. So far, the implications seem to hold that social insurances carry all the sense of insurance dependability, all the asset items, but that since "social insurance is different from private insurance", responsibility for long-range results need not particularly hamper our planning. An adequate study of the nature of insurance is over-due, a sobering analysis of the wide battery of insurances and the differences between them and between them and the compulsory social protection. "Private insurance" includes stock and mutual companies, ordinary life insurances, individual annuities, industrial insurance, group insurance, group annuities, retirement plans, etc. I hope that 1948 will advance the long deferred analysis which insurance trained persons have not yet adequately performed. Insurance terms have largely been adopted and used by non-insurance persons. Responsibility and balance must mark the study.

Our social insurance for the catastrophes of old age and death, old age and survivors insurance (called OASI), under the administration of the federal government, has divided the nation into the "ins" and the "outs". It deals too largely with labor pressure groups instead of all citizens. It has a potential power for evil as well as for good. The citizen has an inalienable right to deal with his own responsibilities. These are taken over by an employer or by a government at their peril. Whenever the emphasis has been upon the bargain to one class, there tends to be a blinking of the question of final impact of the cost, of the question as to who bears the extra cost. The state is the sum of the citizens. Costs come to rest somewhere. In the American Old Age and Survivors program there seems inadequate recognition of the mathematics, the cost accounting back of, inherent in or following from this protection. Studies of the operation and cost of OASI are frequently ponderous, voluminous and perplexing. The more conscientiously these studies are performed, the more dismaying they become. Neat, easily read reports on OASI are apt to be misleading because of what they leave out. The OASI benefits seem capricious. Older men have favorable benefit treatment in comparison with older women. There are "bargains" to all aged beneficiaries taken together for a couple of decades. Yet these insurance benefit incomes average today less than two-thirds the incomes granted to the relief or assistance group. Many of these are getting assistance because they have been arbitrarily excluded from insurance benefits. Needs tests are of various degrees of "toughness". The few million normal, thrifty aged citizens excluded from both insurance and assistance wonder if thrift has paid them. They see that other thrifty citizens some way, under liberal administration, frequently get the reward of prodigality in spite of their thrift. They are troubled by the absence of a clear philosophy to rationalize these contrasts.

In individual life there is a succession of pre-work, work and post-work periods. Contracts for deferred incomes in old age are bought with the earnings of the productive period. For the community persons in the three groups exist simultaneously. Those in pre-work, and those in post-work status are dependent for their goods and services upon those that work. If social insurance is insurance, it is most wisely considered

term insurance. Only the whole community has the common interest and stability and sharing potential required for a real insurance plan. When this community of interest is lacking, when those who give are not told that they give, when the appeal is more to cupidity than to broad humane sharing, there emerge misunderstanding and evasiveness. Sound functioning requires thoroughness of analysis. These plans have been called insurance. In many ways the word seems a misnomer.

Balance requires further that the great goods of the American life insurance program (perhaps 65 or 70 per cent of the protection of the world on 6 or 7 per cent of the world's population) and our thrift, savings and investment structure shall not be weakened or lost, in any socialized program so handled that incentives and spirit and free choice become too largely impaired. Balance would put social insurance in the United States into its place as one of many agencies. Social insurance may furnish floors of protection coordinate with (a) various other forms of mass protection, and (b) the galaxy of individual insurance arrangements. The three can wisely develop together.

A social insurance plan for the United States is valid only if the responsibilities it entails are understood and assumed by its citizens. The Eliot Bill and the early Wagner-Murray-Dingell bills, hastily thrown together and sponsored by the brass hats of labor seem too largely appeals to the cupidity of the gallery and to little mature programs of shared provision. They were hurried, unbalanced, uneconomic. They would have required that too large a portion of the national income and resources be routed through governmental agencies.

During 1947 there has been a clearer recognition of the dangers of alien philosophies, of the superman phobia. The year has brought a renewed avowal of a belief in personal work, personal choice, personal responsibility. One congressional committee has registered protests against propaganda by government personnel. The December, 1947 Readers Digest carries an article by the chairman of that committee, claiming that in social security the words research and statistics should imply very different responsibilities than those of indoctrination.

When I called the year 1945 a year of inquiry, I may wishfully have been two or three years early. The inquiries are now arising. The inquirers include the National Association of Manufacturers, the U.S. Chamber of Commerce, insurance management. They represent production and distribution, editorial writers in leading newspapers, feature writers, all seeking for a philosophy. All look for balance. All feel responsibility.

III. *The International Scene*

A. *Germany* — Hayek of Austria and Great Britain several years ago brilliantly indicated the danger of an unbalanced state, the welfare state, that siphons too much of the national resources through a single state agency. In Germany today it is also evident that the deferred benefit structure of social insurance lacks balance. Conditions are precarious in that now-partioned Reich which had earlier routed its social security investments into the madness of world wars. The simplicity of sharing the costs has been lost. Those who expect relatively more from a bankrupt nation, because they bet more on the wrong

horse, create classes in misery. The German social insurance does not induce an inspiriting acceptance of common responsibility for all and by all.

B. *England* — Here universality of coverage gives the closest approach to balance and responsibility. Accumulation of reserves by denying benefits has been negligible. While there is muddled bookkeeping in tripartite finance, apparent subsidies to the citizen, pretense that labor gets benefits from the rest of the country, England, fortunately, isn't committed to high benefits. England still has "his Majesty's opposition" and some vigorous portest against the bootstrap school. War unfortunately postponed much open expression of opinion. England is more "down-to-earth" now, less anxious for appearances, more appreciative of food, shelter and services. The almost exclusive labor presentation needs supplementation by responsible, balanced, informed citizens.

C. *New Zealand* — This labor government has had two blind spots in social security. It has been less cautious than Great Britain in its level of benefits, it has been less ready to consider the awkward results of deferred benefits in the use of relief methods in the present and in the consequent steadily increasing cost in the future. Relief is distasteful but needs tests in many ways hold down the benefits to those who have paid the most under social security taxes and under steadily progressive taxation toward the system. New Zealand is in for increasing costs as were the old life assessment companies. As Kermit Lang of the Equitable Life of Iowa, stationed in New Zealand during the war, remarks — "The system seems to be a glorification of mediocrity and a discouragement of enterprise". Such a condition shows a lack of balance, an inadequate sense of responsibility.

D. *Latin America* — Most of the Latin-American programs have been too much concerned with creating autonomous institutions above the State and with investment of reserves for deferred benefits. These investments tend to represent an unduly large intrusion into the economy by the funds and the institutes. As more cost-minded men come into positions of authority in government, appreciation of the dangers of deferment, coordinate with the unmet needs of today, is moving these bodies toward balance and responsibility. Business men are taking an interest in these problems. They are bringing in a fresh perception.

E. *The Far East*—Japan, China, Korea, India all want the benefits of an industrial world. The advisers to these countries find that social security is desired as a part of modern democratic society. Once more a proper sense of responsibility must preserve balance. While we here in the United States can irresponsibly talk about giving everyone the best of medical care because we do have medical facilities, it is quite different in a country where medical care of any sort is simply unavailable for a large proportion of the population.

F. *The ILO* — This organization, successively headed by Thomas, Butler, Winant and Phelan, is handicapped by its very structure, by a bias of "more for labor", by the double awkardness of the jobholders complex and a "many-nations" membership. When it seems to work, it is probably partly due to one man's assuming an unwarranted author-

ity. It survived the League of Nations and carried over until the United Nations had organized. It is hard to read intentions but it lacks balance. Its approval of a work-less, get-more philosophy in France just before the war seems to have been dangerously in the wrong direction. Its Latin-American influence seems a questionable mixture of good and bad elements. Ambassador Winant's recent, poignant complaint that we have been raising questions about the inerrancy of the past touches a very sore nerve. We have to raise such questions. The easy answer is the right answer only when it *seems* to be easy but is the hard-won answer.

IV. *Events of 1947*

1. The growing conviction that the objectives of Russia and the United States are radically different is but one aspect of an increasing American respect for private enterprise, freedom, choice, evolutionary progress. Very much as the Russians have used terms like democracy, liberalism and the like with far different connotations than our own, so in social security discussion terms like private insurance, security, contributory plan, quite often carry a far different connotation than I, as a trained life insurance actuary, would accord them.

2. Unemployment compensation has run so long without any serious strain upon its resources that, as in the twenties, there is optimism that we have now reached a plateau of high earnings and full employment from which there will be and should be no retreat. Analysis of unemployment compensation has been largely restricted to an expression of faith in or distrust of a full employment economy. The reserves, inaugurated during a depression of serious magnitude, are not too large for the possible needs in case of a repetition of such a catastrophic situation. In 1947 there has been controvesy as to state as against federal direction, as to the linking of employment service and unemployment compensation administred, as to whether these two services represent labor or security legislation and should be a part of the Labor Department or the Federal Security Agency.

3. There were abortive efforts to rescind the temporary disability benefits recently added to the Railroad Retirement benefit structure. The Association of American Railroads has prepared a report showing, among many other things, how large the costs of these compulsory benefits are when compared with "profits".

4. A report from the Bureau of Internal Revenue on extending OASI to such groups as agriculture, domestic service and the self-employed makes the complexities of the collection mechanism stand out confirming my opinion that the evidence to date does not argue for the feasibility of such belated extension. The result would be that our current complex system would become more rather than less complicated.

5. No expansion beyond Rhode Island and California has been made in the states which tack temporary disability protection on to unemployment compensation.

6. The effort to expand coverage to a group of individualists called insurance agents by rulings and court decision probably complicates, rather than simplifies, OASI philosophy.

7. Gerontology and geriatric medicine support an indeterminate age of retirement and suggest the possibility of a reduction in the potential number of OASI beneficiaries through postponed retirement.

8. A Latin American Institute on Social Security with representatives from Mexico, Central America and the Caribbean was held by the Social Security Administration in Washington in June.

9. An OASI actuarial advisory group of four men, Mr. Hohaus, Mr. Kulp, Mr. McAndless, and Mr. Williamson has been appointed by the Social Security Administration.

10. Published discussions on social security and affiliated subjects include National Industrial Conference Board books by Col. Plumley and Elizabeth Wilson, a Public Health Service Report by Dr. Louis Reed on Blue Cross and Medical Service Plans, a new edition of the Source Book on Medical Care and Costs prepared by the Social Security Administration, discussion of non-governmental medical care plans at Chicago, under the auspices of the American Association of University Teachers of Insurance (presented in this issue of the Journal) and a periodic bulletin issued by the Shearon Legislative Medical Service aimed largely at defending the American public from the encroachments of the welfare state. Of importance in this theme of insistence upon human dignity, self-reliance and personal responsibility are *Human Destiny* by du Nouy, Tannenbaum's discussions in the *Political Science Quarterly*, The William Henry Chamberlin articles wherever published, *Mutual Survival* by Wight Bakke. The U.S. Chamber of Commerce has continued its study and writing in this area and has sponsored a thoughtful and critical analysis in the interpretation of selective service and other data by the Social Security Administration.

11. Governor Winant's tragic death has removed the one man who could have thrown a certain light into some of the dark corners. His *Letter from Grosvenor Square* on friendship between men and nations carries several illuminating comments on social security and the ILO.

12. The 1948 hearings on Medical Care before the Senate Committee of Labor and Education were extremely brief, but included statements favoring the legislation by Mr. Falk and Mr. Cohen and a statement against such legislation by Mrs. Shearon. The President has requested such legislation in 1948.

13. Cabinet status for the Federal Security Agency now headed by a new administrator, Oscar Ewing, is being debated. The tremendous scope of such a Department, including a comprehensive Social Security Administration, the Public Health Services, the Office of Education, that part of the Bureau of the Census dealing with Vital Statistics already added to the office of Public Health, the other Special Services, is reason for most serious consideration of all the components of such a department, as well as the over all problems of responsibility for a nice balance.

V. *The Task Ahead*

A Senate Finance Committee Advisory Council is at work studying OASI. Most of its members are busy people, honest, intelligent, patriotic. Their responsibility is much greater than that of a similar committee

10 years ago, when not enough time was spent on study and when at the end Mr. Witte, in his Senate Finance Committee testimony showed the new program to be a rather sorry makeshift but nevertheless recommended its adoption. The temptations facing this Council are the same but this time the problems are complicated by the many open evidences of the basic weakness of the deferred benefit structure. It is inflexible, burdensome, fussy, A deficient plan cannot be remedied by verbal gymnastics about insurance, private and social. The undemocratic, discriminatory, capricious structure of the moment doesn't need shoring up. It needs fundamental revamping. It needs the fresh consideration of objectives, of impact of cost. It needs more balance of benefits to the retired, the older, the middle aged, the younger, the future workers. It needs more sense of responsibility. It needs to avoid the extra push of inflation. This council should not act from compulsion, from precedent or because of deadlines. It should follow the advice of my old high school principal — "Before you start setting down the answers to this examination remember this sequence—read, think, act". I trust their reading and their thinking will not produce more legislation in 1948. This seems the year for solving problems other than social security.

A Memorial

JOSEPH BERNARD FINNEGAN

Joseph Bernard Finnegan, professor emeritus and head of the Department of Fire Protection at Illinois Institute of Technology, passed away July 4, 1947 at his home in Chicago.

Thus was brought to a conclusion the career of a man who was an independent spirit in the field of humanity; a man with an understanding and love of students and one whom they learned to appreciate as a sincere and constructive critic. A staunch idealist he labored painstakingly to develop within his students the tools they could utilize for their own culture.

He was a pioneer in a new field and did more than any one man to develop an awareness in engineers of their responsibility for the safety of society. He was an unusual combination of engineer and philosopher. This facet of his personality was revealed when shortly before his death he wrote, "Why should we call uncultured the man who knows thoroughly and broadly the history, philosophy, and effect on the human race of the heat engine but is unfamiliar with the music of Brahms, while we hail as cultured the musician who is a master of technique and knows the field of harmony but is contemptuously ignorant of applied science, which has made possible the pipe organ?"

Prof. Finnegan was graduated from M.I.T. in 1904, receiving a B.S. degree in chemical engineering. He served in various fields in industry as an inspector in the sanitation department at Stoneham, Mass., his birthplace; as a chemist with the gas company of Norfolk, Va.; as an engineer with the insurance inspection bureau of New York City, and as a member of the Underwriters Laboratories engineering staff for 24 years.

Prof. Finnegan became associated with the college as an instructor in 1905, progressively advancing to the rank of assistant professor in 1906 and associate professor in 1907. He became full professor and head of the department in 1916.

As an educator, Prof. Finnegan associated himself with many organizations, such as the American Association for the Advancement of Science, American Association of University Professors, Society for the Promotion of Engineering Education, American Association of Mechanical Engineers, National Fire Protection Association, Western Society of Engineers, American Association of University Teachers of Insurance, and the American Polar Society.

He was a member of Tau Beta Pi, Sphinx, and was honored originator of the Salamander, Fire Protection Engineering honorary fraternity. He interested himself in many civic groups and enterprises, most recent of which was membership on the Fire Protection Advisory Committee of the Ordnance Department, U. S. Army, during the war years.

Prof. Finnegan's scholarly bent of mind asserted itself in his close association with the college magazine. He served on the advisory board of the magazine and became editor-in-chief in October, 1939, serving in this capacity until May, 1945. He resumed this post following his retirement and issued his first magazine in December, 1946; the May, 1947, issue, his last, is a fitting tribute to his discriminating taste.

Part III—Association Activities

Minutes of Annual Business Meeting

The business meeting was held December 29, 1947, 5 p.m., at the Drake Hotel, Chicago, Illinois.

TREASURER'S REPORT

The Treasurer's report was presented by J. Edward Hedges, appointed to serve for the balance of the year following the effective date of Dr. Chester A. Kline's resignation, submitted at the last annual meeting. The report was submitted in two parts; one, covering the period January 1 to July 25, and second, covering the period from July 25 to December 29, 1947. (The reports have been consolidated and the composite report for the year appears on page 113). The report was duly accepted.

The Secretary-Treasurer distributed copies of a list of new members who had joined the Association during the year. President Kulp pointed out that the increase to a total of approximately 150 in all membership categories represented a substantial growth, particularly since no concerted membership drive had yet been initiated.

The Secretary-Treasurer reported the death of Professor Finnegan of the Illinois Institute of Technology and, following the precedent established last year, was directed to have prepared and printed in the *Journal* a memorial to Professor Finnegan.

ELIZUR WRIGHT AWARD COMMITTEE

Dr. Frank G. Dickinson, chairman, reported that the Elizur Wright literature prize would not be awarded this year because, in the opinion of the awards committee, no article, book, or report in the field of insurance during 1947 merits this recognition by the Association. The members approved unanimously a resolution expressing deep appreciation to the anonymous donor of the prize money given in connection with the Award.

REPORT OF THE SPECIAL COMMITTEE ON ASSOCIATE MEMBERSHIP & RELATED MATTERS

Hampton H. Irwin, chairman, reported for the committee. (A copy of the report appears on page 110.) By vote of the membership, the President was directed to continue the Committee for the ensuing year in order that plans might be completed and the proposed membership drive carried out.

The amendment to the constitution, dealing with the matter of Associate membership in the Association, as recommended by the committee was discussed. The amendment had been circulated three weeks prior to the annual meeting and voted upon by means of a mail ballot. The Secretary reported 42 votes in favor to none opposed, out of an active membership of 73 entitled to vote. The mail vote was affirmed and the constitution ordered amended. "The Constitution, as amended is reproduced on page 114 in this issue of the *Journal*.)

REPORT OF THE EXECUTIVE COMMITTEE ON NOMINATIONS OF HONORARY MEMBERS

Acting upon the suggestion of Mr. Richard deR Kip, the committee recommended the election of Mr. H. A. L. Cockerell and Mr. Walter Arnold Dinsdale, Secretary and Director of Education, respectively, of the Chartered Insurance Institute, London. After discussion, the committee's recommendation was adopted and the Secretary instructed to extend to these men an invitation to become Honorary members.(The invitation has been duly extended and accepted.)

COMMITTEE ON THE JOURNAL

It was proposed and passed that a Special Committee be appointed to consider the problems of planning and launching an expanded *Journal* to appear more frequently than is now the case. The Committee on the *Journal* is to work closely with the Special Committee on membership since the success of the membership drive will determine the income available for the publication of an expanded *Journal*.

ELECTION OF OFFICERS

The Nominating Comittee presented its recommendations as follows: President, J. Anderson Fitzgerald; Vice-President, Erwin A. Gaumnitz; Secretary-Treasurer, J. Edward Hedges; Members of Executive Committee, Laurence J. Ackerman, (term to expire in 1950); John H. Magee, (term to expire in 1949). A motion was passed to declare the nominations closed and the nominees elected.

INCREASE IN DUES

After discussion, a motion to increase the annual dues from $3.00 to $5.00 was passed and the Secretary instructed to make the change effective immediately. Those who had paid dues in advance were not to be subject to the increase for the ensuing year.

APPRECIATION

A resolution of appreciation to the Western Underwriters Association for the stenotype service provided for the meeting was adopted.

The Secretary was directed to express the Association's thanks to the American Mutual Alliance for sending copies of the Insurance Book Reviews to the members during 1947.

The meeting closed with a resolution of appreciation to President Kulp for the splendid job done by him and his administration during his term of office.

REPORT

of

The Special Committee on Associate Membership and Related Matters

To:

Prof. C. A. Kulp, President, and members of the American Association of University Teachers of Insurance

Your special committee on membership appointed at the annual meeting one year ago submits the following report:

The committee as appointed by you consisted of

Mr. John M. Breen, Chairman
Prof. Ralph H. Blanchard
Mr. E. J. Faulkner
Prof. J. Edward Hedges
Mr. Hampton H. Irwin
Mr. Joy Lichtenstein

However, due to Mr. Breen's protracted illness, I was appointed acting chairman, and later was asked to continue as chairman.

At this point I should like to pay tribute to the loyal support and cooperation of each member of the committee. Geographical separation made mandatory the conduct of much of our business by correspondence, but each member of the committee responded most faithfully so that the recommendations of the committee constitute a unanimous opinion, arrived at after a very complete consideration of the various points involved. In addition, I should like to comment upon the assistance given by President Kulp. I was privileged to confer with him personally on several occasions and again in a special meeting held in Professor Blanchard's office where various details were thoroughly threshed out.

The first matter studied by the committee was the question of changing the name of our Association. We very quickly came to the conclusion that we should retain the present name—The American Association of University Teachers of Insurance.

Next, we considered the matter of membership and decided that a change would be desirable so as to broaden the definition of associate membership in Section III—Membership—in the Constitution. Obviously, the committee had no authority to make this change on its own initiative; rather it recommended the change to the Executive Committee which in turn approved it and submitted the revised draft to the membership for final approval.

The committee was originally charged with the responsibility of formulating plans to enlarge the membership of the Association. To do this effectively it was felt that a membership application blank

should, of course, incorporate the new provisions, but this could not be done until the Constitutional changes were ratified. Accordingly, the committee reluctantly came to the conclusion that any active solicitation or "drive" would have to be postponed.

Briefly stated, the committee considered the following factors involved in broadening the scope of associate membership. The purpose of our Association is not only to meet the needs of the university teaching profession, but also to encourage research and offer a forum at which the problems of the day affecting insurance may be discussed. Active membership requirements remain the same and are limited to those offering work for degree credit in accredited colleges and universities at the time of application for membership. Associate membership, according to the proposed revision of the Constitution, is therefore open not only to those ineligible as active members on the basis of teaching activities, but also to those who have actuarial, research, and statistical duties in the field of insurance. With reference to the first group the committee also recognizes that there are many individuals engaged in teaching classes in insurance (but not for degree credit) who should be entitled to associate membership. Such classes for example might include those designed to prepare the student for the insurance sections of the C.L.U. and C.P.C.U. examinations. There are also a considerable number of company educational directors who are made eligible under the revised provisions. It is the thought, however, that persons in this last category shall be those whose primary responsibility is supervising the formal training and education of agents, rather than those who although they may have such duties as a minor part of their assignments, are actually in training in Home Office agency departments for general agency or managerial appointments. Professor Blanchard epitomized our viewpoint by observing that the test should be that the individual be a "genuine educator."

Closely associated with the distinction between active and associate membership is the right to vote which is now held only by the active members. After thorough consideration of the various factors involved the committee quite positively recommends that the voting privilege continue to remain exclusively with the active membership.

The committee also very carefully considered the suggestion that a special place be made in our associate membership for a subsidiary organization of company educational directors in one or several fields, or that the objectives of the Association itself be sufficiently broadened so that problems relating particularly to company educators could be included. After careful consideration the committee concluded that the objectives of our organization should remain as they are and that company educators be welcomed to associate membership. There are many problems common both to university teachers of insurance and company educators which can and should be discussed in joint meeting. Furthermore, we can see no objection to separate organizations of company educators for the purpose of discussing training problems which are exclusively in their respective fields.

The committee also believes it is desirable to continue the invitational aspect in our membership procedure. Heretofore, prospective

members have usually been proposed for membership, and we should like to continue this practice. Assuming your approval, the new membership blank will be prepared accordingly.

Turning now to another responsibility of the committee, namely the promotion of the Journal, the committee felt that since the campaign for membership had to be postponed it would not be feasible to initiate any special activity with respect to the Journal.

The committee therefore formally recommends:

(1) That the name of the Association be retained as The American Association of University Teachers of Insurance.

(2) That the Constitution be revised as above indicated, in accordance with the copy of the proposed draft attached, and which was presented in due course to the Executive Committee, which, in turn, submitted it to the membership. [For amended wording of Section III, see copy of Constitution, as amended, on page 114.]

Respectfully submitted,

HAMPTON H. IRWIN
Chairman, Special Committee on Membership
The American Association of University Teachers of Insurance

Treasurer's Report

January 1 to December 31, 1947, Inc.

(consolidated)

INCOME

Cash on Hand, January 1, 1947			$ 464.78
Membership Dues		$ 381.00	
Sales of Proceedings:			
1946	$ 127.50		
Others	17.50	145.00	
Sales of Reprints		257.24	
Advertising in Proceedings:			
D. Appleton Century Co.	50.00		
McGraw-Hill Book Co.	35.00		
Prentiss-Hall, Inc.	29.75		
Richard D. Irwin, Inc.	35.00		
Ronald Press Company	35.00		
United States Review Pub. Co.	20.00	204.75	
Elizur Wright Prize Money (1946)	250.00		
Elizur Wright Prize Money (1947)	250.00	500.00	
Total Income			1,487.99
Total Received from All Sources			1,952.77

DISBURSEMENTS

Dunlap Printing Co. (500 copies of Journal, 1000 Reprints "Col. Ed. for Bus.")	$ 733.25	
Dunlap Printing Co. (Stationery)	66.75	
Elizur Wright Prize Money to Elmer Warren Sawyer (1946)	250.00	
Elizur Wright Prize Money Returned to Donor (1947)	250.00	
Room for Annual Meeting, Speakers dinners	31.00	
Miscellaneous Expenses of Secretary-Treasurer	140.65	
Bank Charges for Handling Account	2.91	
Auditing of Association Books	10.00	
Total Disbursements		1,484.56
Cash on Hand, December 31, 1947		$ 468.21

Constitution

Adopted by The American Association of University Teachers of Insurance December 28, 1932

And amended December 27, 1934, April 24, 1936, January 1, 1940 and December 29, 1947.

I. NAME

The name of this Association shall be The American Association of University Teachers of Insurance.

II. PURPOSES

The purposes of the Association shall be as follows:

A. Promotion of insurance education.

B. Encouragement of research in the insurance field.

C. To provide an open forum for scientific discussion of all kinds of insurance.

1. The Association will take no position as an organization on any insurance problem nor will it be in any way responsible for the expression of opinion of any one of its members.

D. Publication of such material as may from time to time seem appropriate in forwarding the general purposes of the Association.

E. Cooperation with other American organizations interested in whole, or in part, in insurance education.

F. Cooperation with similar organizations in foreign countries.

III. MEMBERSHIP

A. Membership in this Association shall be of three kinds:

1. *Active*—Any person who, at the time he originally applies for membership or at the time he requests reinstatement of a membership previously lapsed, holds a teaching appointment in an accredited college or university in the United States or Canada, and who is offering for degree credit one or more graduate or undergraduate courses devoted entirely to insurance (including insurance law and actuarial science), shall be eligible for active membership in the Association.

2. *Associate*—Any person not eligible for active membership who (1) is or has been engaged in teaching classes of insurance, or (2) has or has had as his primary responsibility supervision of the formal insurance training or education of agents, or (3) has or has had as his major assignment, actuarial, research, or statistical duties in the field of insurance. Associate members shall not have the right to vote or to hold office, except as hereinafter provided.

3. *Honorary*—Any person who is not a citizen or resident of the United States or Canada, and whose activities have contributed substantially to the advancement of insurance education, may, upon recommendation of the Executive Committee, be elected at any annual meeting, to honorary membership in this Association. Honorary members shall not have the right to vote or to hold office.

B. Questions of membership eligibility in individual cases shall be decided by the Executive Committee.

C. Guests may be invited to participate in the deliberations, or to be present at the meetings of the Association, at the pleasure of the Executive Committee.

IV. OFFICERS

A. Officers of the Association shall be a President, Vice-President and Secretary-Treasurer, each to perform the customary duties of such officers, *and to serve for a term of one year or until his successor is elected.*

B. There shall be an Executive Committee consisting of the officers, *the immediate past-president,* and three additional members, one of whom may be an associate member.

C. 1. A Committee on Nominations, consisting of three active members, shall be appointed three months before the annual meeting by the President, with the approval of the Executive Committee, which shall make nominations for the offices of President, Vice-President, Secretary-Treasurer Treasurer and members of the Executive Committee. A Committee of Tellers, consisting likewise of three active members, shall be appointed by the President at the annual meeting; the duty of this committee shall be to tabulate all votes and report the results of the election.

2. Nominations shall be prepared and mailed to the active membership of the Association not less than forty-five days in advance of the Annual Meeting with a return envelope addressed to the Secretary; additional nominations may be made by any group of three or more active members who shall prepare, sign and forward their nomination or nominations to the Nominating Committee not less than thirty days prior to the Annual Meeting. The Nominating committee shall then send ballots containing the original and additional nominations without delay to all active members. All ballots, to be judged legal must be received by the Secretary at least seven days prior to the Annual Meeting, and both the voter and the nominee must have paid their dues for the current year. The Executive Committee shall prescribe the method of signing and counting the ballots so as to keep the balloting secret.

3. If there is only one nominee for each office, no ballots shall be mailed to the members, and at the Annual Meeting each member so nominated by the Nominating Committee shall be declared elected.

4. The President or Vice-President may serve for not more than two consecutive years in the same office.

D. The three additional members of the Executive Committee shall be elected *in the manner prescribed in Section C,* and shall serve three years.

1. At the first election of members of the Executive Committee one shall be chosen for a one-year term, one for a two-year term, and one for a three-year term.

V. MEETINGS

Meetings shall be held annually on the same dates as are adopted by the American Economic Association and/or the American Statistical Association for their annual meetings. These meetings shall be held in the same place as those of the American Economic Association and/or the American Statistical Association unless considered impracticable by the Executive Committee, which may adopt a more convenient place of meeting.

VI. QUORUM

A. Ten active members of the Association shall constitute a quorum for the transaction of any kind of business at the annual meeting.

B. Twenty active members shall constitute a quorum for the transaction of any kind of business at other than annual meetings.

VII. DUES

The annual dues shall be determined by the Executive Committee and shall be billed for the calendar year. They shall not be more than $5.00.

VIII. EXPENSES

A. The Association shall pay the necessary expenses of conducting the office of the Secretary-Treasurer, shall furnish such stationery as is necessary for other officers, and may incur such other expenses as are authorized by the Executive Committee.

B. The fiscal year of the Association shall be the calendar year.

C. In no event shall the Association incur annual expenses in excess of the aggregate annual dues of the members, except by authorization of the membership at an annual meeting or at a special meeting.

IX. AMENDMENTS

The Constitution and/or By-Laws may be amended by submitting the amendment, signed by at least two-thirds of the members of the Executive Committee, to the members of the Association by mail, who shall either ratify or reject the amendment by communication in writing, to the Secretary; such amendment to be regarded as ratified in the event that two-thirds of the votes received within three weeks of the date on which the copy of the amendment is forwarded to the membership shall be in favor of such amendment.

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1948

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Professor Frank G. Dickinson, American Medical Association
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